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INCOME GENERATION THROUGH ZAKAT: THE ISLAMIZATION
IMPACT ON MALAYSIAN RELIGIOUS INSTITUTION

PRESENTED BY
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DECLARATION

I, THE UNDERSIGNED, HEREBY DECLARE THAT THIS THESIS IS WRITTEN BY
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SUHAILI BIN SARIF

ABSTRACT

The aim of this thesis is to examine how the Islamization phenomenon has influenced zakat. The study shows that the distribution of the fund for income generation is a manifestation of the impact of Islamization on the zakat institution. Islamization is an outgrowth of increased religious awareness among Muslims and greater governmental concern with Islamic matters. Such a phenomenon might be initiated either by society or by government. In the case of zakat, a religious duty, the institution has been revived and shaped to become a potentially useful development tool, causing Muslims to look to existing initiatives, in this case income generation, to improve the disbursement system. The greater role of zakat in the economy has also entailed new interpretations of law by means of *ijtihād*, as the new mechanism to a certain extent is adoption of modern practice originally outside of Islamic realm.

Income generation through zakat is a new way of distribution whereby the zakat fund is used for helping the poor to generate their own income. Discussion of the new idea began in the mid-twentieth century and has been implemented in a few Muslim countries. In a country which was clearly moving towards the formation of an Islamic State, namely Pakistan, the effort to introduce the initiative could be seen as part of the effort to achieve a fully religious government. By contrast, where a government, like that of Indonesia, tends to remain neutral in regard to religion, income generation has been mainly part of a societal agenda. In both cases, the zakat rulings will change according to the form taken by Islamization in the country.

Malaysia, the country given a special focus in this thesis, is an example of Islamization as initiated by both government and society. The Islamization of society in the 1970s led the secular government to become accommodative towards Islam. Zakat was gradually rejuvenated through better administration and was eventually proposed for active involvement in poverty eradication. The tradition hence has been transformed into a development institution which is not merely religious in nature.

In a federation such as Malaysia, policies outlined by the federal government will be followed by the states. Selangor, as the most active state in offering income generation through zakat, has been chosen for further elaboration in this study. Looking at zakat's financial potential, the state has embraced the institution as part of its development program. Society and the state government have cooperated in supporting the implementation of income generation. Income generation in this context complements the state's development effort. In addition, *ijtihād* has been employed to accommodate the changes in the practice of zakat.

In sum, the thesis shows how the Islamization phenomenon has influenced religious institutions in general and zakat in particular. It appears that the institution can adapt to contemporary challenges, depending on the societal, economic and political agendas of a modern state.

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NOTES ON TRANSLITERATION

Consonants					
ف	F	f	ر	R	r
ق	Q	q	ز	Z	z
ك	K	k	س	S	s
ل	L	l	ش	Sh	sh
م	M	m	ص	Ṣ	ṣ
ن	N	n	ض	Ḍ	ḍ
و	W	w	ط	Ṭ	ṭ
ه	H	h	ظ	Ẓ	ẓ
ي	Y	y	ع	‘	
ال	Al	al	غ	Gh	gh
				ء	‘
				ب	B b
				ت	T t
				ث	Th th
				ج	J j
				ح	Ḥ ḥ
				خ	Kh kh
				د	D d
				ذ	Dh dh

Vowels					
Long:			Short:		
آ	ى -	Ā	اَ -		a
او		Ū	اُ -		U
اي		Ī	اِ -		I
Doubled:			Diphthongs:		
أبّ		abb	أو		Aw
إبّ		ibb	أي		Ay

Note: The Arabic words which are very common in the English written literature on Islamic studies like zakat, Quran and hadith are not in italics.

GLOSSARY

<i>‘Amīl</i>	Zakat collector/ administrator
ABIM	Angkatan Belia Islam Malaysia (Malaysian Islamic Youth Movement)
<i>al-fīṭr</i>	Zakat levied on each Muslim in every Ramadan
<i>al-Ghārimīn</i>	Debtor
<i>al-Muallaf qulūbuhum</i>	Those whose hearts are reconcilable
<i>al-Riqāb</i>	Those in bondage
<i>al-Tamlīk</i>	Conference of ownership
<i>Bayt al-Mal</i> (or <i>Baitulmal</i>)	Public treasury in an Islamic state
BAZIS	Badan Amil Zakat, Infaq dan Sadaqah; semi-autonomous zakat administration
BAZNAS	Badan Amil Zakat Nasional; National semi-autonomous zakat administration
BPRS	Bank Pengkreditan Rakyat Syariah; <i>Shari’ā</i> based Credit Bank
CII	Council of Islamic Ideology
CZC	Central Zakat Council
<i>Da’wa</i> (<i>dakwah</i> in Malay)	Islamic propagation
DD	Dompot Dhuafa Republika
DZC	District Zakat Committee
<i>Faqīr</i> (<i>faqir</i> in Malay)	Needy
<i>Fatwā</i> (<i>fatwa</i> in Malay)	A religious opinion issued by a competent scholar or <i>mufīī</i>
<i>Fī sabīl allāh</i>	Those in the way of God

<i>Fiqh</i>	Islamic Jurisprudence; an expansion of <i>Shari'a</i> derived from interpretation of Islamic jurists
FOSIS	Federation of Islamic Student Societies
FOZ	Forum of Zakat
Hadith or Sunna	Reports of statements or actions of Muhammad or of his tacit approval of something said or done in his presence
<i>Ḥalāl</i>	The term is used to designate food seen as permissible according to Islamic law
<i>Ibn sabīl</i>	Wayfarer
IDB	Islamic Development Bank
IGP	Income generation program
<i>Ijtihād</i>	Decision making in Islamic Law; Legal reasoning
<i>Imām</i>	Ruler or leader
IMFI	Islamic Micro Financial Institutions
IRCFT	Islamic Religious Council of Federal Territory
IRCS	Islamic Religious Council of Selangor
IRDS	Islamic Religious Department of Selangor
ISBOZ	The International Board of Zakah, Kuwait
KUAZ	Group of Zakat Recipients Entrepreneurs (<i>Kumpulan Usahawan Asnaf Zakat</i>)
LAZ	Lembaga Amil Zalat; non-state sponsored zakat agencies.
LZC	Local Zakat Committee
<i>Madhhab</i>	Islamic sect or school of law
<i>Miskīn</i>	Poor
MORA	Ministry of Religious Affairs
<i>Muftī</i> (<i>Mufti</i> in Malay)	Expounder of Islamic law who is normally officially appointed by government

MUI	Majelis Ulama Indonesia (Indonesian Council of Islamic Scholars)
NEP	New Economic Policy
<i>Niṣāb</i>	prescribed minimum amount of wealth liable to zakat
NU	Nahdatu Ulama (Ulama Awakening Organization)
NZF	National Zakat Foundation
OIC	Organization of Islamic Conference
PAS	Parti Islam Se Malaysia (Pan Malaysian Islamic Party)
<i>Pesantren</i>	Indonesian religious boarding school
PKPIM	Persatuan Kebangsaan Pelajar Islam Malaysia (National Association of Malaysian Islamic Students)
PKPU	Pos Keadilan Peduli Umat (Justice Post of Muslim Care)
PRZS	Permanent Rehabilitation Scheme of Zakat
PVTC	Punjab Vocational Training Council
PZC	Provincial Zakat Council
<i>Ramadān</i>	Month of fasting
<i>Shari'a</i>	Religious law of Islam derived from Quran and Sunna
<i>Sultan</i>	State ruler or king
<i>Surau</i>	Prayer house
<i>Takaful</i>	Islamic Insurance
<i>Takhayyur</i>	Selection and incorporation of less credible opinions from any school of law
<i>Talfiq</i>	Amalgamation; combining in one opinion, elements from various quarters within and outside the school.
UMNO	United Malay National Organization
VTI	Vocational technical institution
<i>Waqf</i>	A charitable trust dedicated to some socially beneficial purposes; religious endowment

ZBS	Zakat Board of Selangor
ZCC	Zakat Collection Center

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CHAPTER 1

INTRODUCTION

1.1 Introduction

Zakat is one of the most important religious institutions for Muslims. In recent years, the Malaysian zakat institution has been frequently cited and discussed in newspaper reports, seminar papers and academic writings which show how the institution has been improved. The literature also reveals a considerable change in zakat distribution in that the fund is not merely disbursed directly to the poor but is used to finance various programs which help them to generate income through their professions. Indeed, zakat is now not merely a religious institution but is more akin to a development body.

The new pattern of zakat disbursal raises the question of how this change could have occurred. It seems that there must be some explanations in the form of a link with broader socio-economic and political circumstances. In addition, considering zakat as a religious duty, there must be an explanation of how a secular economic approach could be incorporated into its administration. As a religious obligation the sanctity of which must be preserved, zakat's new emerging role also should require a new legal justification.

If we track the situation further, we see that the distribution of the fund cannot be separated from the collection side. In Malaysia, the improvement in the distribution mechanism was actually sparked by the significant increase in collection realized earlier, during the 1990s. That improvement was a product of the government's Islamization agenda, which introduced a better way of zakat administration called corporatization. Hence, it is not an exaggeration to assert that Islamization is behind all the changes.

In view of this underlying perspective, the aim of the thesis is to discuss the change and seek explanations for it. Looking at the development and improvement of the zakat administration before and largely after the Islamization period, this study tries to show how Islamization has influenced such an institution. The process of transformation of the institution from a religious observance to a tool in economic development, eventually used to finance income generation programs, will be elaborated on. In this context, the process is to an extent associated with national

socio-political and economic factors. The change in the institution, however, has not been solely administrative but is also associated with reinterpretation of legal rulings.

It is worth noting that this thesis is original in the sense that it is the only study so far which tries to relate the development of income generation through zakat to the Islamization phenomenon. In fact, the very concept of income generation through zakat, along with issues pertaining to its legal basis, has yet to be specifically discussed in any other research.

Theoretical discussion indicates that Islamization is a phenomenon observed in the twentieth century whereby society and government have sought to revive and strengthen Islamic institutions. As far as zakat is concerned, it appears that the phenomenon has brought about the expansion of zakat's role in economic development, beyond its initial religious function, in order to solve modern problems.

In addition, this unfolding process leads to a re-examination of zakat rulings. Here, the classical rulings on zakat will be reviewed in the light of modern needs. In terms of practical implementation, such a process of expansion, as we shall see, has depended on the pattern of Islamization in each country: that is, on whether it was sponsored by government, on the one hand, or by society, on the other.

Economically, the income generation program represents a development approach to eradicating poverty. Muslim scholars and economists since the mid-twentieth century have believed that, as an economic mechanism for poverty eradication, zakat money could be used to finance income generation programs. In these programs, the recipients gain not only material capital in the form of a grant or loan to enhance their professional expertise, but also intangible aids such as training and other services.

The disbursement of zakat for income generation programs has been introduced in a number of Muslim countries. Pakistan and Indonesia are among those which offered the programs before Malaysia, around the 1980s. The two earlier cases thus merit exploration as foundational examples before venturing further into discussion of Malaysia. In Pakistan, zakat has been an integral part of taxation policy in the process of establishing the country's identity as an Islamic state. Therefore,

income generation through zakat can be seen as part of the government's effort to build such a state. Indonesia, on the other hand, is a country which has excluded zakat from its field of interest. Consequently, the proper administration of zakat there has been heavily dependent on society, so that when income generation was eventually introduced, it was as a social development mechanism. The growth of zakat administration slowly succeeded in persuading the government to establish a law on zakat at the end of the twentieth century, although payment to the fund is still largely voluntary. In this context, it seems that the effort to improve the institution has depended on challenging the secular Indonesian state.

Islamization in Malaysia, as in other Muslim countries, is a topic of discussion which matters for every Malaysian. Over time, the government has introduced an element of Islam into administrative practice. As seen on the ground, Islam has also been more visible in the public sphere. Although this does not mean that everyone is a devout and observant Muslim, the elements and symbols of Islam are clearly evident everywhere in Malaysia. This is an interesting point considering the actuality of Malaysia, in which Muslims merely comprise a simple majority of its 28 million people.

The Islamization phenomenon in Malaysia is not solely motivated by religion, but is also related to the dynamic of the national socio-economic and racial composition. There was a racial riot in 1969 caused by economic imbalance and distrust between races. As a reaction, the government brought in economic policies favouring the majority in the population, who are Muslim Malays. The implementation of the new policies in the 1970s gradually gave Malays access to higher education and urbanization, leading to a shift in their outlook. Educated Muslims established movements to revive religious practice and argued that the government should not merely strengthen Malays economically but must also promote their religion. Eventually, the movements succeeded to an extent in attracting urban Muslims and posing a political challenge to the government.

The Islamization phenomenon in society led the government to become more accommodative towards Islam, introducing a number of Islamization policies such as the co-option of religious individuals and reinforcement of Islamic institutions,

including zakat. In this case, the government's Islamization agenda was directed not towards establishing an Islamic state but rather towards linking Islam with economic development in such a way as to empower the Muslims economically.

Historically, the zakat institution in Malaysia had failed to function effectively, having no proper management or successful collection methods. As part of the improvement initiative, the government introduced corporatization, that is, setting up a corporate entity to collect zakat. As zakat is administratively under the power of each state, the corporatization model was initially introduced in Federal Territory, which has a closer relation with the federal government. The move was followed in stages by other states, leading to a considerable incremental increase in collection.

Due to the improvement in collection, productive distribution through income generation programs was gradually introduced in the 1990s in a number of states. The aim was to improve the distribution mechanism in response to the current needs of the Muslim community and also to exhortations from individuals and various organizations. Discussion of Islamization of the zakat institution, however, stopped at the federal level, there being no specific examination of the continuous Islamization process at state level, although the process has undoubtedly evolved.

In practical terms, Selangor is the most extensive state in Malaysia to have implemented such a program. Selangor is the foremost state in collection and distribution, as a result of the Islamization phenomenon in the state and the corporatization of the institution. Economically, as a state in a federal country, Selangor has assumed the supportive role of helping the federal government to implement its development policies. To supplement the actions of the federal government, the state, however, has embarked on many of its own income generation programs. With limited money for development, the state was receptive to any possible sources of finance, including zakat.

The swelling of the collected fund eventually led to the zakat body's focus on poverty eradication and income generation. Indeed, in implementing income generation programs, including the provision of training and supervision for fund recipients and other initiatives to promote its effectiveness, the Selangor zakat body

played a considerable part in ensuring that the distribution produced better incomes for the recipients. In terms of religious rulings, it appeared that the official legal expounder in the state (*Muftī*) also gave an affirmative ruling on the zakat body's practice. In this context, income generation is justified as conforming to *sharī'a* and thus accommodating the needs of Muslim society. What the zakat body actually achieved, apart from establishing that the fund could be effective in poverty eradication, was to complement the state's accommodative policy towards zakat.

On the basis of this introduction, we can reach a broad conclusion, which is also to become the general argument of this research: that the Islamization process has changed zakat in accordance with modern needs. The phenomenon has not only made the religious duty more visible and consistently observed by its followers but has also used it to solve modern development problems. The process accordingly does not merely establish a greater role for Islam in aspects of modern living, but, in reverse, also exposes the religion to individual hopes and government agendas.

1.2 The Objectives of the Study

From the above rationale and discussion, we can therefore outline the following objectives to be achieved by the thesis:

1. To survey the meaning of the Islamization phenomenon, in particular as it is related to the zakat institution.
2. To study income generation through zakat as a new, evolving role for zakat in economic development as manifested by the Islamization process. This is an exploratory study on the theory of economic development from an Islamic perspective, with zakat projected as a poverty eradication mechanism. Besides theoretical investigation, a brief survey of practical implementation in a few Muslim countries will be presented.
3. To understand the Islamization phenomenon in Malaysia and how such a phenomenon could affect zakat. This approach will shed light on the extent to which the institution has interacted with features of its external environment such as government agendas or social aspirations.

4. To study the implementation of the income generation program through zakat in Malaysia generally and in Selangor particularly, and to explore the Islamic legal interpretations supporting it. Apart from that, this study aims eventually to analyse the impact of programs on the recipients socially, economically and legally.

1.3 Literature Review

The issue of zakat has been discussed in countless writings, in various aspects and contexts. In terms of *fiqh* and from a legal perspective, zakat is widely explained in classical literature, while modern commentaries discuss it from more diverse standpoints including those of sociology, politics and economics. As this study looks at zakat from multiple aspects, it will incorporate both types of literature. Classical writings by authors such as al-Shafi'i¹, al-Nawāwī² and al-Buḥārī³ will be referred to together with modern studies by Siddiqi⁴, Saud⁵, Sayed Sikandar⁶, and many others.

Although it is not our intention to discuss all the texts referred to, there are a number of writings that merit review before we venture further into this topic. Besides being widely read, they also to an extent touch upon some aspects that we shall explore later. However, there remain some areas which are not covered by any of these works.

Yusuf al-Qardawi, a renowned Islamic scholar who emerged in the mid 1960s with a book entitled *Fiqh al-Zakah*⁷, is among the writers meriting attention. The book can be placed among the most important works to date for the thorough explanation of zakat that it provides. It covers many aspects of zakat, encompassing

¹ Muhammad ibn Idrīs al-Shāfi'ī, *Kitāb al-Umm*, v3 (Beirut: Dār al-Kitāb al-'Ilmiyya, n.d).

² Al-Nawawī, Abu Zakariyya Muhyi al-Dīn ibn Sharaf, *Rawda al-Talibin*, v 2 (Beirut: Dar al-Kutub al-'Ilmiyyah, n.d); Abū Zakariyā Muhy al-Dīn al-Nawāwī, *Kitāb al-Majmū'*, v6 (Jeddah: Maktaba al-Irshād, n.d).

³ Maṣṣūr Ibn Yūnus Ibn Idrīs al-Buḥārī, *Kashāf al-Qinā' 'an Matni al-Iqnā'*, v2 (Beirut: 'Ālim al-Kutub, 1997).

⁴ Muhammad Nejatullah Siddiqi, "The Guarantee of a Minimum Level of Living in an Islamic State" in *Distributive Justice and Need Fulfillment in an Islamic Economy*, ed. Munawar Iqbal (Leicester: The Islamic Foundation, 1986).

⁵ Mahmoud Abu Saud, *Contemporary Zakat* (Cincinnati: Zakat and Research Foundation, 1988).

⁶ Sayed Sikandar Shah Haneef, "Issues In Fiqh Az-Zakah: Implications for Islamic Banking and Finance", *The Islamic Quarterly* (52)(2) (2008).

⁷ Yusuf al-Qardawi, *Fiqh az-Zakah*, trans. Monzer Kahf (London: Dar-al-Taqwa, 1999).

its basic definition, its ancient historical background, and its legal principles, along with rules regarding collection and distribution. He also explains contemporary issues which are not addressed by any classical scholars, such as new types of taxable wealth and monetary payments.

In discussing various issues, the writer bases his argument mainly on classical treatises, among which, in each case, he cleverly chooses that which, in his judgement, offers the best alternative. At some points, where classical literature offers no sound alternative or is completely silent, al-Qardawi provides his own decision (*ijtihād*). We shall refer to the book in examining several questions pertaining to zakat in later chapters.

Some years later, zakat received a more modern treatment by Afzalur Rahman, a Muslim economist. Rahman is among the prominent writers who early on proposed a theory of economics based on religion, popularly known as Islamic economics. In his massive work (consisting of four volumes altogether) entitled *Economic Doctrines of Islam*, written between 1974 to 1979, he outlined many factors related to economics and argued, on the basis of *al-Quran* and *Sunna*, that they formed the economic system of Islam.⁸ He maintained that such an economy provided an alternative to other systems, namely, capitalism and socialism.

In his book Rahman looks at many issues, ranging across production mechanisms, ownership, exchange and lending activities, land rental and many others. Zakat, the topic discussed in volume three along with questions of interest and usury, is portrayed as a religious duty which has the potential to cure society's economic ills. He outlines the principles of zakat according to Islamic law, including its collection and distribution. He also interprets zakat as a mechanism for abstaining from hoarding, reducing inflation,⁹ and achieving fairer distribution of wealth for social security purposes.¹⁰

Indeed, al-Qardawi and Rahman have discussed zakat theoretically from legal and economic perspectives. In addition, both authors have presented the concept of income generation, as we shall later observe. Neither, however, offers any discussion

⁸ Afzalur Rahman, *Economic Doctrines of Islam*, vol.1 (Lahore: Islamic Publication, 1980), 7.

⁹ Rahman, *Economic Doctrines of Islam*, vol.3, 230.

¹⁰ Rahman, *Economic Doctrines of Islam*, vol.3, 241.

of the real practice of zakat collection in Muslim countries, or explains why the duty must now start to be viewed as an economic tool.

Although there are many writers, including these two, who believe that zakat could be a tool for poverty eradication and redistribution of wealth alongside its original role as a religious duty, this opinion is not necessarily shared by others. For example, Timur Kuran, in his papers “Islamic Economics and the Islamic Sub economy” and “Economic Impact of Islamism”, written respectively in the 1980s and 1990s, has expressed disagreement on the matter.¹¹

His articles are based on observation of numerous writings appearing since the early 20th century, which have tried to demonstrate the relevance of an economic system based on Islam. Kuran notes that the principles of Islamic economics, as outlined by the literature he surveyed, are as follows: the expectation that Muslims in their economic life will act for the benefit of society (rather than for personal gain), as demanded by the religion; the prohibition of *riba* (usury); and Islamic redistribution, mainly through zakat.¹²

Kuran, however, argues in his critique that what has been proposed is not realistic. As for the first principle, a person will still act primarily in his own interest, with common interests perhaps not catered for in modern complex communities, religion notwithstanding. The corruption which is found widely in Muslim states is evidence of this tendency.¹³ He also claims that Islamic Banking represents merely a change of name and contract, disguising interest within the Islamic contract as *murābaha* (mark-up sale). As far as zakat is concerned, the collection was still far too small to make a significant contribution to poverty eradication.¹⁴

He then argued that all the development of the Islamic economics idea since its introduction (including centralized zakat collection and disbursement by the state

¹¹ These articles have been republished in a book. Please refer Timur Kuran, *Islam and Mammon, The Economic Predicaments of Islamism* (Princeton: Princeton University Press, 2004).

¹² Timur Kuran, “Islamic Economics and the Islamic Subeconomy” in *Islam and Mammon, The Economic Predicaments of Islamism*, ed. Timur Kuran (Princeton: Princeton University Press, 2004) , 39-42.

¹³ Timur Kuran, “The Economic Impact of Islamism” in *Islam and Mammon, The Economic Predicaments of Islamism*, ed. Timur Kuran (Princeton: Princeton University Press, 2004) , 30.

¹⁴ Kuran, “The Economic Impact of Islamism” 10-11.

for poverty eradication) is related to Islamization, its exponents being motivated by the desire to defend Islamic civilization against western cultural influences.¹⁵

Perhaps Kuran, in this case, is among the earliest writers to combine zakat with elements of Islamization. Although he touched briefly on state collection of zakat in Malaysia in the 1980s, which is understandably referred to as part of the Islamization phenomenon, this practice differs from the ones that will be discussed in the present study. Although in a different sense from Kuran's, we have still considered zakat collection by the state as Islamization. As we shall explain in later chapters, Islamization by the state through zakat could only be observed after the 1990s, which is beyond Kuran's observed period. In a further dissimilarity from the present research, no exploration of legal issues was provided by Kuran.

Another work worth looking at is Charles Tripp's book *Islam and the Moral Economy*, which studies and synthesizes various responses of Muslims reformers, scholars and political leaders to the dominance of capitalism since the early 20th century.¹⁶ Tripp argues that the emergence of capitalism as a key mode of production posed a new challenge to Muslim intellectuals, to which they had to find a response. Hence they drew upon rich Islamic primary sources to find parallels to the situations they faced in their own eras. In this exercise, as Tripp demonstrates, they were not totally successful, since the reality on the ground had changed over time, so that scholars needed to modify their approach to make it relevant to the modern world. Although Tripp did not clearly claim that what happened amounted to Islamization, the alternative picture of conventional modern development indeed identifies such a phenomenon.

Tripp in this book briefly touched upon zakat along with Islamic banking, which he refers to as a mechanism of moral economy (economic system) proposed by Islamists. Like Kuran, Tripp briefly cited the sparse collection in Muslim countries such as Pakistan and Iran, to indicate that what had been proposed by Muslim scholars as an instrument of poverty eradication might not be practical. He

¹⁵ Kuran, "Islamic Economics and the Islamic Subeconomy", 39.

¹⁶ Charles Tripp, *Islam and the Moral Economy, the Challenge of Capitalism* (Cambridge: Cambridge University Press, 2006).

also seemed to share Kuran's view that the practice of Islamic banking was merely cosmetic.¹⁷

Although it is undeniable that zakat, after a few decades of official collection, has yet to make a significant dent in poverty, that does not mean that zakat will never be a useful economic tool. As we shall see in a later chapter, zakat can still play an effective role in helping the poor on the micro scale. Considering that Tripps's discussion devotes only two pages to zakat, a broader perspective on zakat's performance might be beyond his scope. Nor does he present any new approach to zakat disbursement, such as income generation.

A closer relation between zakat and Islamization is portrayed by Arskal Salim, an Indonesian writer, in his book *The Shift in Zakat Practice in Indonesia*.¹⁸ Through his studies, he found that zakat is nowadays no longer an expression of personal piety but rather a type of Islamic economic system. He perceives this as part of the Islamization process, that is, a process of calling for the establishment of Islamic doctrines in Muslim socioeconomic and political systems.¹⁹

Salim maintained that the shift in zakat practice in Indonesia, which was intensified after the fall of the second Indonesian President Soeharto, represents the entrenchment of Islamization in that country. Such a process includes the change from the Muslim perception of zakat as an expression of religious piety to recognition of it as the foundation of the religious and economic system, together with improvements in its management, as we shall discuss later in greater detail.

Indeed, Salim's study has something in common with this one in the sense that zakat is the main focus of both. We shall refer to a certain extent to Salim's definition of Islamization when explaining what is meant by such a phenomenon. There is, however, one difference that should be clarified: while Salim's study is closely concerned with the zakat collection mechanism in Indonesia, the present research will specifically deal with a new objective of the zakat distribution program, namely income generation, for which Malaysia will be the main geographical setting.

¹⁷ Tripps, *Islam and the Moral Economy*, 124-125.

¹⁸ Arskal Salim, *The Shift in Zakat Practice in Indonesia: From Piety to an Islamic Socio-Political-Economic System* (Bangkok: Asian Muslim Action Network, 2008).

¹⁹ Salim, *The Shift in Zakat Practice in Indonesia*, 7-8.

As this thesis incorporates a broad range of ideas including income generation through zakat and Islamization, the contributions of Kuran, Tripp and Salim are indeed valuable and help us to have some insight into the subject matter. Nevertheless, as mentioned above, their focuses are dissimilar to that of this thesis.

Since Malaysia provides a key focus of this research, some studies pertaining to Malaysian zakat should also be mentioned here. In this regard, at least three writings need to be carefully surveyed. Habib Ahmed of the Islamic Development Bank Group is one of the writers who have observed the zakat administration in many Muslim countries. He conducted research into zakat and *waqf* (inalienable endowment), and in early 2000 he observed the role of the zakat and *waqf* institutions in poverty eradication in selected countries.

In his book *Role of Zakah and Awqaf in Poverty Eradication*, Ahmed investigates how zakat and *waqf* – two wealth-related religious institutions – can be used in poverty eradication from either a macro or a micro perspective. From the macro perspective he examines the problem of poverty in Muslim countries and compares it with the zakat collection, which he finds is too small to be used as a national poverty eradication mechanism. It is unfortunate that this is true also in the case of *waqf*, which consists of wealth mainly in the form of mosques and shrines that cannot generate investment.²⁰ As for the micro level, however, Ahmed believes that zakat can still play its part in denting poverty if, among other approaches, it is effectively used for income generation and to improve the capacity and entitlement of the poor (as will be elaborated upon in later chapters). In the same chapter, he observes the practice of *waqf* and zakat in a number of countries such as Pakistan, Malaysia and South Africa, and sees some improvements in disbursement of zakat for the purpose of income generation.²¹

Looking at the Ahmed discussion, we find consideration of some current zakat practices, including those in Malaysia; he also has touched briefly on the potential of income generation through zakat. In addition, he has inserted into the report some legal decisions on issues pertaining to zakat and *waqf*. Unlike several writers mentioned earlier, however, he did not relate the observed centralized

²⁰ Habib Ahmed, *Role of Zakah and Awqaf in Poverty Alleviation* (Jeddah: IDB, 2004), 115

²¹ Ahmed, *Role of Zakah and Awqaf*, 108.

collection and distribution of zakat in Muslim countries to the phenomenon of Islamization or to any other event which can explain such a development.

Unlike Ahmed, who surveys the Malaysian case among a number of countries examined, Abdul Aziz Muhammad in his work specifically deals with the Malaysian case. He covers its history from before the establishment of official collection by the state (approximately the 1950s) right through the 1980s in his research entitled *Zakat and Rural Development in Malaysia*.²² This study concerns the practice of zakat in Malaysian rural areas, where he observed that the obligation to pay fell only on farmers, while other more lucrative sectors remained untaxed. As development at that time (the 1980s), especially in rural areas, was dominated by agriculture, the author wanted to know how rural development affected zakat.

He found numerous anomalies in the Malaysian zakat system, such as ineffective distribution and collection, the tendency towards disbursement to the non-poor, and many others. He suggests that such a situation arose because the development approach adopted by Malaysia did not focus on or incorporate the importance of zakat.²³ Apart from that, the then *ulamas* merely followed classical legal opinion (which designated only staple food as subject to tax), without looking at the pressing need to charge other profitable sectors and industries.

Based on his study, Muhammad proposed that some changes in zakat practice, such as determination of the minimum taxable wealth, are needed, which would take cognisance of economic conditions. Zakat also must be an obligation for all rich Muslims, not just farmers or staple food producers.²⁴

Indeed, his discussion is very informative about the history of zakat and provides valuable statistics from the 1970s and 1980s which were not readily available. But he only focuses on the zakat on rice, which he regards as associated with rural development, and nowhere mentions the productive use of zakat.

As Selangor is the state given special attention in the two final chapters, we should mention some studies which have been carried out in this state. A few

²² Abdul Aziz Muhammad, *Zakat and Rural Development in Malaysia* (Kuala Lumpur: Berita Publishing, 1993).

²³ Muhammad, *Zakat and Rural Development*, 175.

²⁴ Muhammad, *Zakat and Rural Development*, 184-186

researchers, such as Patmawati Ibrahim and Hamdino Hamdan, have researched zakat in Selangor. The former writer, studying the zakat practice in Selangor, focuses on poverty eradication. In her research entitled *The Economic Role of Zakat in Reducing Income Inequality and Poverty in Selangor*, she investigates the extent to which zakat in the state has ameliorated poverty and inequality in Muslim society, and notes that zakat has been disbursed annually. In this context, Ibrahim uses mainly quantitative methods such as the income level of the recipients prior and post distribution, besides incorporating statistical measurements such as the Atkinson index and Gini coefficient, as we shall discuss later.²⁵ Based on her analysis, she found that zakat has to a certain extent improved the incomes of recipients and reduced the inequality between them and others.

The most recent research was conducted in 2009 by Hamdino Hamdan, who studied the implementation of micro finance (another name for income generation) for poverty eradication in Selangor. He surveyed a number of organizations, including the Selangor zakat body among the observed samples. His analysis incorporated several factors such as the improvement in income, the method of monitoring, and features contributing to the success or failure of the recipients of financial aid. In this case, Hamdan regarded the income generation programs offered by the Selangor zakat body as a micro financing initiative, in which the grants resembled those given by other institutions of the state.²⁶ According to Hamdan's findings, zakat has to a certain degree succeeded in helping the recipients to move out of poverty, although some areas need to be refined.²⁷

The writings of Muhammad, Ibrahim and Hamdan look at zakat from a local development perspective, arguing that zakat, if practised effectively, could yield economic betterment for the recipients. They give valuable information about the overall practice of zakat in Malaysia in general and Selangor in particular, although only Hamdan has so far offered a discussion pertaining specifically to income

²⁵ Patmawati Ibrahim, "Economic Role of Zakat in Reducing Income Equality and Poverty in Selangor", Phd Thesis, Universiti Putra Malaysia, 2006, 7.1.

²⁶ Hamdino Hamdan, "Kebekerkesanan Program Kewangan Mikro di Kalangan Orang Miskin di Malaysia: Kajian Kes di Selangor", Phd Thesis, University of Malaya, 2011, 197.

²⁷ Hamdan, "Kebekerkesanan Program", 384.

generation. Similarly, some information about Malaysia can be found in Ahmed's work.

There are however some limitations in these writings, affording us the opportunity to fill the gap. They do not try to relate the zakat institution and recent occurrences to the phenomenon of Islamization, nor do they give much attention to the legal aspect. These two areas will be addressed in detail in this study. In the case of the earlier mentioned writings, all are by international writers, none of whom has touched on Malaysian zakat, although they have undeniably given early recognition to the idea that any improvement in zakat administration can be associated with Islamization.

Looking at these literatures and their respective focuses, we can say that the present study is indeed an original contribution, with no other research to date having outlined a completely similar picture. This study surveys the implementation of income generation through zakat, viewed as a manifestation of the Islamization phenomenon. As we shall later find, the Islamization concept is not merely a governmental initiative, but also reflects the efforts of society. Accordingly, in terms of law, the process of *ijtihād* will also be delineated.

1.4 Methodology and Approach of the Study

This section will briefly discuss the research methodology and its approach. Concerning the methodology, the study is mainly qualitative and is derived heavily from library research. As for the approach of the study, it could perhaps be characterized as a discourse on economic development from an Islamic perspective. Indeed, "Islamic perspective" here is not merely a distinct point of view pertaining to a certain aspect of the study, but also indicates a pattern according to which a given concept or subject will or should be researched. The first part of the section discusses methodology while the second concentrates on the approach of the study, which can be extracted from the discussion on development from an Islamic perspective.

1.4.1 Research methodology

The research adopts a qualitative method, using references from both primary and secondary sources. For theoretical discussion of the Islamization phenomenon

and some aspects of it related to zakat and income generation, the study has relied substantially upon secondary sources, including journals, working papers, dissertations and books. As the thesis also incorporates to a lesser extent a discussion of *fiqh* and classical rulings, some classical legal books have been referred to. Most of this material has been gathered through research at a number of university libraries such as Edinburgh University, the British Library, the University of Malaya, the National University of Malaysia and the International Islamic University of Malaysia.

For the implementation aspect of zakat and income generation in Malaysia in general and Selangor in particular, apart from secondary sources, information has been gathered from primary sources. These include zakat reports, official zakat magazines, government reports, meeting reports and many other printed materials provided by zakat institutions and government agencies. Although some are in English, the sources are mainly written in the Malay language. The researcher has also conducted interviews with a number of zakat officials in Malaysia. However, their opinions are merely supportive of what was written and reported in the gathered primary and secondary sources. For modern rulings related to the implementation of income generation through zakat, especially in Selangor, the information is mainly drawn from rulings and legal decisions documented by the religious body and associated agency. It is perhaps worth mentioning that, in terms of the format of materials, both primary and secondary, while some are in print, many are internet versions.

1.4.2 Development from an Islamic perspective

The fact that Muslim countries have been lagging behind in many sectors such as economy, science and technology, despite their commitment to the secular development mechanisms similar to those implemented in the western capitalist countries, has led to the formulation of a new concept of development based on an Islamic perspective.²⁸ This suggested that western development ideologies have not

²⁸ Khurshid Ahmad, "The Challenge Global Capitalism: An Islamic Perspective" in *Making Globalization Good*, ed. John H. Dunning (New York: Oxford University Press, 2003), 190; Ziauddin Sardar, "Beyond Development: An Islamic Perspective", *The European Journal of Development Research*, (8)(2) (1996): 37; Khurshid Ahmad, "Introduction", in *Studies in Islamic Economics*, ed. Khurshid Ahmad (Leicester: The Islamic Foundation, 1980), xiv-xviii; M. A Mannan, "The

been suitable for local Muslim communities; hence, universal implementation of such economic systems was objected to.²⁹ Explaining the situation, Ziauddin Sardar clearly says:

“No matter how you define and redefine development, it just does not fit non western countries; and when it is imposed on them, it fragments, dislocates and destroys societies based on traditional worldviews. It is almost a truism to say that development is not a universal concept, applicable to all societies at all times. It is a product of a specific culture that happens to be the dominant culture in this particular phase of human history.”³⁰

In order to get rid of the over-dependency of Muslim countries on western ones, the concept of development in Islam has been introduced.³¹ It reflects the attempt to find an alternative which better suits the native people's needs.

It is claimed that the development concept in Islam has distinct features compared to those of conventional concepts. It has been based on certain Islamic philosophical foundations and ethical axioms. Khurshid Ahmad is a good example of scholar who has given considerable attention to this concept.

In his paper, Ahmad argued that the philosophical foundation of the Islamic approach to development is based on the four fundamental concepts: *tawhīd* (the unity of Allah); *rubūbiyya* (divine arrangements for nourishment, sustenance and the direction of things towards their perfection); *khilāfa* (a person's role as the trustee of god on earth; and *tazkiya* (purification plus growth).³²

Tawhīd and *khilāfa* are two important concepts defining the basic relationship between God and person, person and person, and the person's relationship with his/her environment.³³ The *khilāfa* concept also underlines Islam's unique idea of man's trusteeship, moral, political and economic, and its principle of social organization. *Rubūbiya* refers to the fundamental law of the universe, which throws

Economics of Poverty in Islam With Special Reference To Muslims Country”, in *Distributive Justice and Need Fulfilment in an Islamic Economy*, ed. Munawar Iqbal (Leicester, The Islamic Foundation, 1986), 315-316.

²⁹ See Khurshid Ahmad, “Economic Development in an Islamic Framework” in *Studies in Islamic Economics*, ed. Khurshid Ahmad (Leicester: The Islamic Foundation, 1980), 173; Mannan, “The Economics of Poverty”, 315.

³⁰ Sardar, “Beyond Development”, 38.

³¹ Ahmad, “Economic Development in an Islamic Framework”, 172.

³² Ahmad, “Economic Development in an Islamic Framework”, 179.

³³ Sardar, “Beyond Development”, 48.

light on the divine model for the useful development of resources and their mutual sustenance and sharing. It is in this context of divine arrangement, according to Ahmad, that human effort takes place.³⁴

Tazkiya is the most important concept, being that which relates to the growth and development of people in all their relationships and from which the overall concept of development is derived, since, according to Ahmad, it addresses itself to the problem of human development in all dimensions. The concept of *tazkiya* is also concerned with growth and expansion towards perfection through purification of attitudes and relationships. This is within the mission of all prophets of God, according to which *tazkiya* should be performed by every man in his relationships. The result of *tazkiya* is *al-falāḥ* – prosperity in this world and the hereafter.³⁵

Zakat is an obvious example, since the practice is etymologically derived from the *tazkiya* concept. Sardar, in this regard, made it clear that the idea incorporates the notion of increasing one's wealth by actually subtracting from it – that is, giving it away to less fortunate members of the community. Although it seems to reduce the capital of the wealthy, it is in fact a cause of God's blessing which consequently brings prosperity.³⁶ This is evident from an economic point of view inasmuch as the zakat distribution can improve the purchasing power of the poor, in turn directly increasing the demand for basic necessities and bringing assured vitality to businesses.³⁷

Based on the foundational concepts underlined above, it can be suggested that the Islamic theory of development possesses the following features:

1. It is a comprehensive development covering a wide range of material, spiritual and moral aspects, all being inseparable entities. The ultimate objective is not merely confined to worldly achievement but also extended to life in the hereafter.
2. Man is the main focus of development in that it definitely entails the development of man and his physical and socio-cultural environment. Since

³⁴ Ahmad, "Economic Development in an Islamic Framework", 179.

³⁵ Ahmad, "Economic Development in an Islamic Framework", 179.

³⁶ Sardar, "Beyond Development", 50.

³⁷ Yusuf al-Qardawi, *Fiqh az-Zakah*, trans. Monzer Kahf (London: Dar-al-Taqwa, 1999), 545; Mahmud Ahmad, *Economics of Islam* (Lahore: S.H Muhammad Ashraf, 1958), 91-92.

human attitudes, incentives, tastes and aspirations are policy variables as much as are physical resources, capital, labour, education, skill organization, etc., the maximum participation of the people at all levels of decision-making and program implementation is also emphasized.

3. Development concerns the optimal utilization of resources bestowed by God upon man and his physical environment. It also leads to the equitable use and distribution of these resources for the promotion of human relationships on the basis *al-'adl* (justice).

Perhaps the essence of the discussion surrounding the Islamic development concept can be conveyed by Ahmad's words:

“...Islamic framework economic development is a goal oriented and value realizing activity involving a confident and all pervading participation of man and directed towards the maximization of human well being in all aspects and building the strength of the *ummah* so as to discharge in the world its role as God's vicegerent on earth and as the 'mid-most people'. Development would mean moral, spiritual and material development of the individual and society leading to maximum socio economic welfare and the ultimate good of mankind.”³⁸

From the underlying philosophy and ultimate goal of development from an Islamic perspective, Chapra has formulated strategies through which development might be practically achieved. He suggested that the economic system should be reorganized according to a set of four indispensable and mutually reinforcing elements:³⁹

1. The establishment of the moral filter mechanism of Islamic values within the context of *khilāfa* and *'adāla*. According to Chapra, Islam requires of its followers a humble life style not allowing for extravagance. With the demands of this concept in mind, Chapra argued that the inner consciousness of Muslims will cause them to abstain from unlimited wants, reducing claims

³⁸ Ahmad, “Economic Development in an Islamic Framework”, 180.

³⁹ M. Umer Chapra, *Islam and the Economic Challenge* (Herndon : The International Institute of Islamic Thought and The Islamic Foundation, 1992), 213-224.

for unnecessary resources. This will enable Muslims to eliminate potential claims before these are expressed in the market place.

2. A strong motivation system to induce the individual to perform at his best in his own interest as well as in the interests of society. Islam encourages people to strive after their interests in this world as well as the hereafter. While interests in this world may be, though are not necessarily, served by being selfish and unscrupulous, the interests in the hereafter cannot be served except by fulfilling one's obligations towards others, though without necessarily resorting to self denial. The belief in accountability before God can thus play a powerful role in containing self interest and encouraging behaviour oriented towards social welfare.
3. Restructuring of the whole economy with the objective of realizing *Maqāsid al-Sharī'a* in spite of scarce resources. The *Maqāsid* refers to the goals of Islam, which he argued are opposed to those of predominantly secular systems.⁴⁰ The filter mechanism and the motivating system will only be effective within supportive economic and political boundaries. Thus a systematic and coherent reform program should be introduced, to include: a. invigorating the human factor by motivating and enabling the individual to perform his tasks with the aim of realizing both efficiency and equity; b. reducing the concentration of wealth and of economic and political power; c. reforming all social, economic and political institutions.
4. A positive and strong goal-oriented role for the government. The comprehensive restructuring may not be possible unless the state plays an active role in the economy. But the role of the state should be within the constraints of the *sharī'a* and of democratic channels of consultation (*shūrā*).

With reference to the final point, Chapra indicated that government is one of the strong forces for ensuring that the implementation materializes. Like other economic systems, an Islamic system is operational within specific geographical governance. The government's interest and support will directly influence its workability.

⁴⁰ Chapra, *Islam and the Economic Challenge*, 6.

Looking back at the discussion on economic development according to Islam, at least three perspectives can be extracted. These perspectives, will give us a specific direction not only through a general understanding of what development means in Islam, but also through shedding light on how this study should be approached. They could be summarized as follows:

1. Conceptual discourse of development – dual perspective

Reflecting on the above discussion about the continuous attempt to find alternative development systems, it is evident that, consciously or otherwise, the process must begin with an understanding of the current established systems. In order to seek a better solution, the problem of the sector in which improvement is to be sought must first be well understood. Thus, in studies regarding Islamic development; the conventional concept must first be understood and analyzed. It is not unusual that two approaches, the secular and the Islamic, go hand in hand.

Following a similar procedure, this will be the approach of the present study, in which income generation will be discussed through both perspectives: first examining the concept of income generation in the modern conventional system before venturing onto the discussion of income generation through zakat, a distributive aspect of an Islamic religious institution.

2. Actual implementation perspective

Apart from the theoretical discussions, this study will also venture into the practical implementation of the Islamic development concept. Islamic development is not merely an imaginative vision; it must be able to be translated into the real world. In this context, the implementation of income generation through zakat must be measured to ascertain whether or not it can help to eradicate poverty in the Muslim community.

3. Judicial and legal discourse

As earlier mentioned, every corner of Muslim life, including that related to economic development, should be determined with reference to religious

precepts. The values embodied in the Quran and Sunna constitute a major contribution to the purposefulness of human life, with the establishment of what is *ḥalāl* (permissible) and *ḥarām* (impermissible) acting as a moral filter for a Muslim.⁴¹ From this perspective, the study could not avoid such an approach.

The challenge presented by this aspect is how to identify the distance between the ideal and the present-day reality of the Muslim world and to formulate an appropriate strategy for pursuing developmental efforts in such a way that an Islamic framework for life may ultimately evolve.⁴² In this context, scholars must decide whether to stick with classical meanings or to come up with new interpretations. Accordingly, in addition to rulings made by classical and modern jurists regarding zakat distribution mechanisms, the subject of *ijtihād* (reasoning) and the concept of general interest in Islamic law are among the issues touched.

The above three approaches will be incorporated in the study. Through them it is hoped that the research can provide a clear outlook on another facet of Islamic development, namely, income generation through zakat, and can eventually succeed in showing that the program is to an extent related to the Islamization phenomenon, the argument earlier advanced.

1.5 Structure of the Study

This research comprises eight chapters altogether. The first chapter gives some explanation of the overall background to the subject matter. Chapter 2 discusses the basic concept of Islamization and its dynamics. As we shall see from this chapter, Islamization has influenced the zakat institution so as to broaden that institution's role in economic development. In facing this new role, religious scholars need to re-examine existing religious rulings through the process of *ijtihād*. The chapter will try to fulfil objective 1.

⁴¹ Ahmad, "The Challenge Global Capitalism", 175, 194.

⁴² Ahmad, "Economic Development in an Islamic Framework", 171; Mehmet Asutay, "A Political Economy Approach to Islamic Economics: Systemic Understanding for an Alternative Economic System", *Kyoto Bulletin of Islamic Area Studies*, (1)(2) (2007): 9.

Chapter 3 will try to define income generation through zakat, based on a brief survey of writings by Muslim scholars and economists. Income generation through zakat, according to the discussion in the chapter, comprises three main initiatives: financial aid, training, and advisory and other services. All these initiatives will be discussed further in the chapter, through which it is hoped that objective 2 will be achieved.

From the survey in Chapter 3 of writings pertaining to zakat, a number of countries are found to have been implementing income generation programs through zakat. The fourth chapter will briefly elaborate on the implementation of such programs in Pakistan and Indonesia. These two cases provide a glance at two models of Islamization: Islamization from the state and Islamization from society. The models will help us to understand practical aspects of Islamization in the zakat institution before venturing onto the Malaysian case. This chapter will also partly fulfil objective 2.

The Malaysian case, as the main focus of this thesis, will be discussed from the fifth chapter through the seventh. The fourth chapter will focus on the Islamization process in the country, indicating that it was initiated by both government and also by society and masses. The process consequently led, on the one hand, to improvement of the zakat institution and, on the other, to gradual interest in bringing the fund within the national mechanism for poverty eradication. The chapter will also briefly survey the implementation of income generation in various states. This chapter hence aims to achieve objective 3.

The sixth chapter will elaborate on the economic, social and political structure of the state of Selangor. Selangor will be discussed in order to provide a detailed Malaysian micro perspective on income generation implementation. Hence, before the comprehensive discussion pertaining to the overall process of the initiative as a manifestation of Islamization in the state, the chapter will give an introductory explanation of essential relevant aspects. This chapter will eventually aim at partly fulfilling objective 4.

Chapter 7 will offer a thorough deliberation on the actual implementation of income generation, including contributing factors and overall achievement to date.

Apart from that, the *fatwā* mechanism is brought into focus as the means through which judicial approval has been conferred. This appraisal will clarify the connections among the zakat institution, other government departments and bureaucrats and the Muslim community as a whole. Through this chapter, it is hoped that objective 4 can be fully achieved. Finally, all the findings will be gathered into a conclusion in Chapter 8.

CHAPTER 2

ISLAMIZATION AND ZAKAT PRACTICE: EXPANDING THE ROLE OF THE RELIGIOUS INSTITUTION

2.1 Introduction

The Islamization process in Muslim countries, which dates back as far as the early 20th century, has considerably changed the role of zakat from an act of solely personal piety to a national economic policy. During this period, Muslim scholars began actively advocating Islamic systems of existence embracing social, economic and political practices to form a complete way of life.¹ Zakat, in this context, is perceived not only as an Islamic religious practice but also as a mechanism for hastening economic development.

Islamization is a multidimensional concept whereby the process affects religious institutions, and indeed the zakat system, without exception. Islamization is hence referred to as an aspect of reassertion of an identity which was suppressed under western colonial rule. Islam, in this respect, is the only alternative feature which distinguishes Muslim society from western colonial power. To ensure that Islam can offer the solution to any modern problem, many scholars believe that religious interpretation should not be tied to the traditional heritage, but rather should be revived with new interpretations. Therefore, zakat has been given new roles in economic policy, with the expanding scope of the institution based on new religious interpretations as well as on economic justifications.

Looking at the practice of zakat today, there are many improvements and new mechanisms have been introduced. In numerous academic seminars, the questions of how effective zakat is in eradicating poverty and of how the institution could play a significant role in broader economic development are among the many issues frequently raised. The zakat institution and the formation of its management bodies have also become a focus of states in implementing their Islamization policies. All

¹ Sarfraz Khan, *Muslim Reformist Political Thought, Revivalists, Modernists and Free Will* (London: Routledge Curzon, 2003), 2.

these developments obviously manifest evidence of an evolving yet subtle process of Islamization.

Throughout this chapter, the discussion will try to shed light on the concept of Islamization and its impact on the zakat institution. The chapter is to fulfil the first objective by showing the interrelation between zakat and Islamization. In regard to this aspect, the meanings of Islamization and zakat will be elaborated on, after which the impact of the former upon the latter will be further delineated.

To achieve its objective, the chapter is divided into two main sections. The first will discuss the basic notion of Islamization and the dynamics of the process. Two important elements in it are given special attention, namely the direction of Islamization (state or society) and the process of *ijtihād*. Top-down Islamization is official Islamization sponsored by the government, mainly through laws and enforcement. By contrast, the bottom-up type is mainly animated by society through propagation and education.

This section will then briefly explain the basic concept of zakat, the main institution with which the thesis is concerned. Throughout the section, we shall see that zakat in the present context is a religious obligation which is adaptable to change in the environment and could potentially be used in development.

The second section of this chapter will discuss how Islamization affects zakat in accordance with the dynamism described in the preceding section. As we shall see, the zakat institution under the influence of Islamization has been perceived as an economic tool, thus greatly extended from its original role as a purely religious duty. To accommodate this change, the employment of *ijtihād* is a much-needed method.

Indeed, Islamization has influenced Islamic institutions including zakat, where the former has induced the latter to be more adaptable to the economic needs of modern Muslims. The institution hence has continuously evolved and been used to support tools of development. The underlying concepts presented in this chapter are pertinent as preparation before we venture further onto the more detailed development mechanism, of which income generation is the main feature to be scrutinized in the coming chapter.

2.2 The Concept of Islamization and Zakat

As two main concepts in this chapter in particular and throughout the thesis in general, Islamization and zakat merit explanation. This section therefore will clarify first the concept of Islamization and later give a brief explanation of zakat.

2.2.1 Islamization

The meaning of Islamization varies with context and circumstances. From the historical perspective of the early advent of Islam, Islamization refers to the process of conversion to the religion.² In this regard, different methods, phases and locations imply different forms of Islamization. There are a number of aspects of conversion to Islam such as political domination, trade, and the propagation of *ṣūfī*, which induce personal and communal conversion. Commercial ties between continents, namely Asia and the Middle East, was not only bringing merchandise up to the Levant from south Arabian ports, but also eventually providing a dispersion channel for the new religion. Thus the transmission of Islam from the Middle East to Asia begins as early as the second decade of the 8th century, reaching its south-eastern limits in the Malay archipelagos by the 13th century.³ Although Islamization, in this phase, to a certain extent influenced the dynamism of Muslim society as a whole, it is not of interest to this study, which focuses on the modern Islamization that took place in response to the reawakening of Islam in the 20th century.

Islamization in the 20th century was no longer pursued in order to Islamize non-Muslims, but rather to reassert Islamic values and re-establish Islamic systems as a reaction against western domination. The initial seed of this revival, as John L. Esposito rightly argues, was planted by end-19th/early-20th century reformers, notably Jamal al-Din al-Afghani (died 1897), Muhammad Abduh (died 1905) and Rashid Ridha (died 1935). They were widely known for actively disseminating their

² Nehemia Levtzion, "Toward a comparative Study of Islamization", in *Conversion to Islam*, ed. Nehemia Levtzion (London: Holmes & Meier Publishers, 1979).

³ Peter Mandaville, "Transnational Islam in Asia: Background, Typology and Conceptual Overview", in *Transnational Islam in South and Southeast Asia*, NBR Research Project (Washington: The National Bureau of Asian Research, 2009), 3-4.

idea of renewed Islam and rejection of colonialism, which sought to reform political, legal and intellectual institutions on an Islamic basis.⁴ The gradual worldwide experience of the reawakening phenomenon of Islam at the approach of the mid-20th century, later followed by a number of global forces, has shaped the process of modern Islamization. These forces include, among others, the proliferation of *da'wa* (propagation) organizations and the formation of Islamic governments.

The burgeoning of Islamic movements is a salient feature of the modern reawakening of Islam. The establishment of movement-type bodies and organizations had the aim of making Muslims better organized and hence more effective in resolving their problems and difficulties.⁵ Jamaat Islami of Pakistan and the Muslim Brotherhood of Egypt, which have been in operation since the early 1940s and 1920s respectively, are among earlier movements. They are well-connected and often referred to by other movements throughout the world. The organizations, have been demanding Islamization in wider areas of human life. The writings of their prominent leaders have been translated into many languages and distributed worldwide and have influenced many movement leaders who came afterwards.⁶

Apart from that, students and young professionals who are committed to Islam also have collectively attracted masses to Islam and have strongly urged authorities to show it more concern. Among the organizations in this category are, to mention them briefly, the Islamic Society of North America (founded in 1953), the Muslim Youth Movement Malaysia (established in 1971), and the Saudi based World Assembly of Muslim Youth (founded in 1972).⁷

The establishment of new Islamic states has also, to an extent, intensified the global eagerness for further Islamization. Islamization in Pakistan for instance, has sparked general interest in state Islamization programs. The Islamization programs undertaken by the government have been rigorously studied and discussed in

⁴ John L. Esposito, "Introduction: Islam and Muslim Politics" in *Voices of Resurgent Islam*, ed. John L. Esposito (New York: Oxford University Press, 1983), 6.

⁵ Hussin Mutalib, "Islamic Revivalism in ASEAN States: Political Implications", *Asian Survey*, (30)(9) (1990): 878-879.

⁶ John L. Esposito, "Pioneers of the Islamic Resurgence", in *Voice of Resurgent Islam*, ed. John L. Esposito (New York: Oxford University Press, 1983), 63.

⁷ John L. Esposito, *Islam and Politics*, 4th edition (New York: Syracuse University Press, 1998), 319.

international conferences and writings through which, within the Sunnite ideology, experiments in Islamic politics, law, economics and education have been introduced.⁸

Islamization in Pakistan, which included a wide range of state political mechanisms, was mainly initiated by President Zia ul Haq (1977-1988). The steps displaying the government's commitment to the formation of a state in line with Islamic principle seemed to be the main vehicle for attracting popular support for the president. To understand the political context of the country and the Islamization process, we should look back briefly to a few years before Zia took office.

Pakistan was under the regime of President Zulfikar Ali Bhutto for nearly a decade (1971-1977). Despite the fact that Bhutto initially secured the mandate through election, gradually he came to be viewed as a controversial leader who centralized power under himself, contradicting his early promise to form a democratic government.⁹

Bhutto faced strong rejection by opposition parties dominated by religious groups. This was partly due to his approach to managing his country's economy, using a socialist model which, in the view of religious groups, was an ideology inconsistent with Islam. His steps of strengthening the power of central government over provincial authorities, were also perceived by the masses as an overuse of political power, particularly exacerbated by his actions to suppress his political enemies.¹⁰

The episode of his collapse began with the March 1977 general election, when his ruling party's victory was widely discredited by accusations of deception. He failed to win over opposition parties which then formed a coalition against him despite facing harsh repression. The whole country experienced widespread disturbances and riots. Having no option, Bhutto finally imposed martial law and a curfew, but found that the army itself had turned its back on him. Zia ul-Haq (1924-1988), the general of the army at the time (1977), came to realize that he could no

⁸ Charles H. Kennedy, "Islamization and Legal Reform in Pakistan, 1979-1989", *Pacific Affairs* (63) (1) (1990): 73.

⁹ Surender Nath Kaushik, *Politics in Pakistan* (Sindh: Sani Hussain Panhwar, 1984), 76.

¹⁰ Kaushik, *Politics in Pakistan*, 65-75.

longer uphold Bhutto's government and decided to initiate a *coup d'état*.¹¹ After declaring himself president of Pakistan, he announced his agenda of Islamization in the country. Looking at the political situation at the time, during which he drew significant support from religious leaders and parties, it does not seem so strange that he displayed a commitment to Islam.¹²

Based on the discussion of the steps taken by Zia, we can suggest that his proposal of Islamization was an attempt to win the support of the masses, a strategy clearly departing from that of the previous government. The implementation of his policies, in many cases representing a top-down approach to governing, could be understood as a reflection of his army background. Since he promised to return government to the people as soon as possible, his policies during his tenure were put into effect hastily, sometimes in the face of popular rejection. He finally broke his promises by holding on to power for almost ten years until his demise in a helicopter crash.

The Islamic Republic of Iran (formed in 1979), is another example of formation of Islamic state. The success of the revolution was inspirational for Muslims in which for them, the revolution signified a strong rejection of the western model upheld by Reza's government, which was considered to have brought only harm to Iran and was commonly denoted as "westruckedness". The revolution was also perceived as a move to reverse the loss of religio-cultural identity due to the absolutism of an autocratic ruler.¹³

Projected to the outside world, the revolution was promoted as a symbol of rejection against oppression, hence causing a great deal of enthusiasm, particularly among oppressed people around the world.¹⁴ The export of the revolutionary idea, in addition to denunciation of oppression, included attracting students from around the

¹¹ Shahid Javed Burki, "Pakistan under Zia, 1977-1988", *Asian Survey*, (28) (10) (1988): 1087.

¹² Kaushik, *Politics in Pakistan*, 108.

¹³ John. L. Esposito, "The Iranian Revolution: A Ten Year Perspective" in *The Iranian Revolution, Its Global Impact*, ed. John. L. Esposito (Miami: Florida International University Press, 1990), 23; Mohamad Abu Bakar, "Islamic Revivalism and the Political Process in Malaysia", *Asian Survey*, (21)(10) (1981): 1053; Judith Nagata, "Religious Ideology and Social Change: The Islamic Revival in Malaysia", *Pacific Affairs*, (53) (3) (1980): 412-413.

¹⁴ Farhang Rajace, "Iranian Ideology and Worldview: The Cultural Export of Revolution", in *The Iranian Revolution, Its Global Impact*, ed. John L. Esposito, (Miami: Florida International University Press, 1990), 72.

world to study in Iran, especially through its international religious school, Hujjatiyeh Seminary. In 1981 Iran also set up an organization for the propagation of Islam, through which it published books in multiple languages to disseminate the idea of revolution throughout the globe. Apart from that, every February, Iran arranged an international conference to which scholars from all over the world were invited.¹⁵

All the steps taken by Iran so far clearly showed that the general population in other Muslim countries remained unattracted to the prospect of waging a similar revolution, although it was a fact that what happened in Iran undeniably made monarchical governments nervous. In this connection, Shi'ism as a main ideology of Iran was the primary cause of failure to strongly win over predominantly Sunni followers in other Muslim countries.¹⁶ Most Islamic activists, too, despite admiring the revolution and its prominent leaders, have chosen to work within the already constituted Sunni Islamic groups. Anwar Ibrahim, for example, a Malaysian activist who later became deputy prime minister, in the early 1980s continued to be active in the local movement, the Muslim Youth Movement Malaysia, but refused to take revolutionary action, although he personally visited Khomeini soon after the revolution.¹⁷ In this context, Iran has far to go towards achieving universal acceptance of its approach to struggle, and has been unable to detach itself from Persian and Shi'ite ideology. In fact, even its success in attracting foreign students was not an undiluted source of pride, since it was reported that some of the students who enrolled failed to digest the ideology and ended up leaving the country not long afterwards.¹⁸

To simplify, what we can derive from the above events is that Islam has over time played an important role in the affairs of nations. The formation of the Islamic republic provided Muslims in general with a firsthand experience for them to monitor closely if not to emulate. The process of Islamization also gave them confidence and a strong belief in the superiority of Islam as a basis for solving

¹⁵ Rajace, "Iranian Ideology", 75.

¹⁶ Esposito, *Islam and Politics*, 218.

¹⁷ Gillis Kepel, *Jihad: The Trail of Political Islam*, trans. Anthony F. Roberts (London: I.B. Tauris Publishers, 2002), 132.

¹⁸ Rajace, "Iranian Ideology", 77.

modern problems. The process, however, faced some limitations: as earlier mentioned, the different sect prevailing in Iran as compared to the rest of Muslim world, plus the non-democratic way of obtaining and holding power in Pakistan.¹⁹

Looking at the multiple features of Islamization all over the globe, some scholars have tried to give a succinct definition of Islamization in the modern era. John L. Esposito, for instance, in his study, defined Islamization as a process of creating a more Islamic system of government.²⁰ The definition, derived from the context of modern Pakistan, refers to the government's Islamization projects, involving, among other things, laws, regulatory institutions, programs and policies. The study, which mainly focuses on these Islamization programs, found that the project was less acceptable for having been inspired by an unrepresentative government whose then president, General Zia ul-Haq, had acquired power through a military *coup d'état*.²¹ Esposito hence suggested that the top-down approach must be accompanied by Islamization from society or masses through *da'wa* (religious propagation) and education.²²

In similar vein, Ann Elizabeth Mayer in her article defined Islamization as a reinstatement of Islamic norms and values, with reference to various agendas intended to make societies and law more Islamic.²³ Through her discussion of the Islamization programs taking place in a number of countries such as Pakistan, Iran and Sudan, she suggested that Islamization does not merely revive traditional Islamic values and classical Islamic law. The process also involves the redefinition and transformation of Islamic doctrines to suit the political agendas of various groups of Muslims in the course of those agendas' codification and application by the governments of nation states.²⁴ Based on this analysis, she observed that the

¹⁹ Esposito, *The Iranian Revolution*, 5.

²⁰ John L. Esposito, "Islamization: Religion and Politics in Pakistan", *The Muslim World*, (72) (3) (1982):197.

²¹ Esposito, "Islamization", 218-221.

²² Esposito, "Islamization", 218-221.

²³ Ann Elizabeth Mayer, "Law and Religion in the Muslim Middle East", *The American Journal of Comparative Law* (35)(1987):129.

²⁴ Mayer, "Law and Religion", 184.

Islamization programs have significantly bridged the gap between religion and the state.²⁵

In contrast to Esposito and Mayer, Vincent J. H. Houben looked at the Islamization process from a different angle, describing it specifically as a bottom-up process of growing religious identification and piety undergone by people.²⁶ In his article on Islam in Southeast Asia, he described the process of accord between Islam and this region as taking place in three different forms. The first is the accommodation between state and Islam which leads to a different structure of political Islam, as in Malaysia, Indonesia, Thailand and the Philippines. The second accommodation process involves the link between the Middle East and Southeast Asia, whereby the attempt to reinstate orthodox Islam in the 19th and 20th centuries had a significant impact on the latter region. Houben briefly referred to the issue of resurgent Islam in the 20th century, observing that the attempt to reinstate orthodox Islam as a centre of human thought and action in the individual and socio-political spheres is indeed a process of Islamization. The third strand of accommodation between religion and the region relates to ethnicity and Islam, elements which have lately been embroiled in conflict.²⁷ Having found through his analysis that Islam in Southeast Asia has specific characteristics, he suggested that the relationship between the region and Islam must be understood on its own terms, based both on historical developments and on the contemporary context.²⁸

Arskal Salim is another writer who merits examination, as he addressed Islamization of both state and society. As mentioned in previous chapter, Salim's definition of Islamization is also closer to the approach of this study. He defined Islamization as a process consisting of certain measures and campaigns calling for the establishment of what are regarded as Islamic doctrines in Muslim legal, political and social systems.²⁹ The process, according to Salim, is often promoted by Islamic groups who view it as a proactive force for political change and social

²⁵ Mayer, "Law and Religion", 184.

²⁶ Vincent J. H. Houben, "Southeast Asia and Islam", *Annals of the American Academy of Political and Social Science* (588) (2003):163.

²⁷ Houben, "Southeast Asia and Islam", 167.

²⁸ Houben, "Southeast Asia and Islam", 167.

²⁹ Arskal Salim, *The Shift in Zakat Practice in Indonesia: From Piety to an Islamic Socio-Political-Economic System* (Bangkok: Asian Muslim Action Network, 2008), 7-8.

development.³⁰ Through his study of the shift in zakat management in Indonesia, perceived as part of the Islamization process, he observed that zakat is no longer an expression of personal piety but rather a type of Islamic economic system. Thus Islamization, within Salim's theoretical framework, consists of attempts to: a) change the Muslim perception of zakat as a form of religious piety to recognition of it as the foundation of the religious and economic system; b) encourage the state to become involved in the official management of zakat; and c) transform the voluntary act of zakat into a compulsory one.³¹

In his study, Salim opined that the shift in zakat practice in Indonesia began in the Soeharto era and subsequently intensified after that regime's collapse.³² Structural changes in zakat organization and the enactment of zakat law have comprised a visible shift towards the entrenchment of Islamization within governmental boundaries. A cultural shift is also observed in the change in payment behaviour, with the payers now making payment to the agency instead of directly to the poor. Although the shift is still minimal, the process, according to Salim, is continuing.³³

It is interesting to note that although the present research will specifically deal with a new zakat distribution program, namely income generation, for which Malaysia will be the main setting, however, the Indonesian experience still needs to be referred to. Indonesia had earlier embarked on this project, although the structural shift to official zakat collection management had previously been in operation in Malaysia. The overall situation of Indonesian zakat institutions will thus be briefly described in the later chapter as the basis of the implementation model and the Islamization process.

Based on the definitions of Islamization mentioned above, we can formulate a brief view of the concept as involving several elements. The writers have referred to the involvement of government and society in the process of Islamization, characterized respectively as top-down and bottom-up approaches. In extending their characterization, we can find another element which is mentioned at least once by

³⁰ Salim, *The Shift in Zakat Practice*, 8.

³¹ Salim, *The Shift in Zakat Practice*, 8.

³² Salim, *The Shift in Zakat Practice*, 60.

³³ Salim, *The Shift in Zakat Practice*, 60-62.

Ann Mayer, who correctly identified it as a redefinition of Islamic doctrines. With regard to this element, we could suggest that Islamization is also much associated with the process of reinterpretation of law (*ijtihād*). The following subsection will further elaborate on these two attributes.

1. Islamization of state and society for greater role of religion

Colonialism in the 19th century produced a major crisis in Islamic history. Muslim countries generally followed the path of westernization and secularization, hence the separation of state and religion became more apparent.³⁴ Islam later re-emerged to inspire anti-colonialism and rejection of western culture, offering an alternative which distinguished Muslim society and united it against colonial power. As such, the phenomenon of reawakened Islam in the 20th century has gone on to shape the Islamization process as a rejection of the colonial ideology through the assertion of Islamic identity.

Referring to this particular phase of Islamization, Chandra Muzaffar argued that Islamization constitutes an endeavour to establish the uniqueness of a civilization which refuses to accept colonial domination and control. The action, according to him, could be initiated by either government or society.³⁵

As mentioned above, Islamization by the state implies the introduction of official programs and agendas designed to make society and law more “Islamic”. The programs usually call for the reinstatement of Islamic law as the law of the land and also for the establishment of Islam as a more prominent component of political life and social organization.³⁶ Riaz Hassan explained how official Islamization was put into place in Pakistan. The Islamization process, according to him, involves a religious and social change which seeks to expand the role of religious institutions and the scope of religious practice in Pakistani society. The expansion process was

³⁴ Esposito, “Introduction: Islam and Muslim Politics”, 5-6.

³⁵ Chandra Muzaffar, “Islamization of State and Society: Some Further Critical Remarks”, in *Sharia Law and the Modern Nation State*, ed. Noraini Othman (Kuala Lumpur: Sisters in Islam, 1994), 114.

³⁶ Mayer, “Law and Religion”, 129.

carried out through redefinitions of the role of existing institutions and through restructuring of the state bureaucracy.³⁷

Religious institutions usually come under the direct patronage of the state. It is also to be the state's responsibility to enforce respect and compulsory observance of the principal religious obligations.³⁸ One interesting example to note here is the new role of the zakat institution as part of the economic reform, within which it is now the responsibility of the government to force compulsory payment on the citizen. Thus, the function of zakat will be expanded to finance the state's welfare program, despite its traditionally limited role of expressing individual piety.³⁹

It is worth remembering, however, that Islamization from above (government), or top-down Islamization, is not strong enough to completely instil Islamic values in society. That is the reason why as earlier stated, Esposito suggested Islamic propagation and education methods to be adopted if Islamization is to be successfully maintained.⁴⁰ In this aspect, Shukri Salleh, a Malaysian academician argued, somewhat similarly, that true Islamization is only achieved when Islamic culture and values become embedded in society. Islamization programs in many instances merely accommodate certain Islamic elements in a fragmentary manner while leaving members of society persistently dominated by their un-Islamic attributes. In response to this situation, Salleh proposed that Islamization should also be initiated at an individual level alongside a strong commitment to a top-down approach on the part of the government. He stressed that Islamization must first be in the bottom-up form, beginning within the individual through the implantation of faith and piety and, in their place, allow noble attributes to flourish. On this foundation can emerge an Islamic family and, later, an Islamic society, in time, an Islamic state and, eventually, a strong Islamic diaspora (*umma*). The existing systems will finally be replaced by a new, totally Islamic system which arises through the gradual process of Islamization.⁴¹

³⁷ Riaz Hassan, "Islamization: An Analysis of Religious, Political and Social Change in Pakistan", *Middle Eastern Studies*, (21) (3) (1985): 264.

³⁸ Hassan, "Islamization: An Analysis", 64.

³⁹ Hassan, "Islamization: An Analysis of Religious", 265.

⁴⁰ Esposito, "Islamization", 221.

⁴¹ Muhammad Syukri Salleh, "Islamization of State and Society: A Critical Comment", in *Sharia Law and the Modern Nation State*, ed. Noraini Othman (Kuala Lumpur: Sisters in Islam, 1994), 110.

Besides understanding the direction of the Islamization process, it is pertinent to briefly consider its final destination. The ultimate objective of an Islamization program is indeed the formation of an Islamic state.⁴² It is, however, widely known that there is no single, universally accepted model of the Islamic state despite abundant discussion of its general characteristics.⁴³ Esposito pointed out several factors contributing to the confusion and lack of consensus regarding the true meaning of an Islamic state, namely: 1. The Medinan ideal does not offer much in the way of a detailed model; 2. The later caliphate provides only a skeletal system of government, apart from its non-acceptance by the Shi'i; 3. Failure to establish an Islamic state led to the development of ideal formulae for Islamic law and political theory which, at best, constitute a theoretical, idealized version of a utopian society; 4. The relationship of religion to the state has been subject to interpretation through the ages.⁴⁴

It is not, however, the purpose of this study to clarify what the Islamic state actually means and what it implies, but rather to give a general idea of the objectives of Islamization and the extent to which such a campaign in certain countries actually produces an Islamic state. In this regard, perhaps Salim has sufficiently summarized the idea through his continuum representing the depth of the Islamization process as it moves towards the realization of an Islamic state.

Salim briefly described the process of Islamization towards establishment of an Islamic state, an endeavour which includes initiatives to produce an Islamic constitution, to introduce *sharī'a* rules and to discard all existing laws that contradict *sharī'a*. Viewed through this lens, it could be concluded that the deeper the *sharī'a* rules incorporated into state legal system, the deeper is the Islamization of the country.

⁴² Suha Taji Farouki, "Islamic State Theories and Contemporary Realities", in *Islamic Fundamentalism*, ed. Abdel Salam Sidahmed and Anoushiravan Ehteshami (Boulder, Colo: Westview Press, 1996), 35.

⁴³ For theoretical discussion on Islamic state refer: Hussin Mutalib, *Islam in Malaysia: from Revivalism to Islamic State* (Singapore: Singapore University Press, 1993); Charles J. Adams, "Mawdudi and Islamic State", in *Voice of Resurgent islam*, ed. John L. Esposito (New York, Oxford University Press, 1983), 99-134; Hassan Turabi, "The Islamic State" in *Voice of Resurgent Islam*, ed. John L. Esposito (New York, Oxford University Press, 1983), 241-252; John. L. Esposito, "Muhammad Iqbal and Islamic State", in *Voices of Resurgent Islam*, ed. John L. Esposito (New York, Oxford University Press, 1983), 175-191.

⁴⁴ Esposito, *Islam and Politics*, 321

The formal implementation according to Salim can be divided into 5 ranked areas:⁴⁵

1. Family issues, such as marriage, divorce and inheritance;
2. Financial matters and institutions such as zakat, *waqf*, and Islamic banking;
3. *Ta'zīr* (discretionary) punishment for committing prohibited acts, such as liquor consumption and gambling, or for omitting the required acts, for instance, the use of headscarves for women;
4. *Ḥudūd* and *qiṣāṣ* penalties: *ḥudūd* for those who commit adultery or fornication and theft and *qiṣāṣ* for those found guilty of murder;
5. Islam both as a basis of the state and as a system governing the country.

From the above continuum, it can clearly be inferred that the higher the demand, the closer conformity to it approaches the establishment of an Islamic state.⁴⁶

In sum, although some countries try to call for an Islamic state to be established, this is not necessarily the case in others. Some countries choose to implement a “piecemeal” approach according to which the Islamization program is merely a response to the demands of societies and political opposition groups. Through this kind of Islamization, some practices are encouraged, for instance the celebration of the Prophet’s Birthday, Friday as a public holiday, or the introduction of Islamic banking, which are politically unthreatening to the legitimacy of the ruling government.⁴⁷ On the basis of the above ranks as suggested by Salim, we can clearly observe that a country which adopts such an approach to Islamization will only be willing to initiate changes up to the second stage.

2. Islamization implies new *ijtihād*

As earlier mentioned, besides allowing more space for Islam in state and social affairs, Islamization also involves reinterpretation of Islamic law. Mayer in her article noted that Islamization is reinstating the Islamic law in opposition to westernization. During the era of colonialism (18th–19th centuries), Muslim countries heavily

⁴⁵ Arskal Salim, *Challenging the Secular State: The Islamization of Law in Modern Indonesia* (Honolulu: University of Hawai’i Press, 2008), 46.

⁴⁶ Salim, *Challenging the Secular State*, 46.

⁴⁷ Muzaffar, “Islamization of State and Society”, 114.

adopted colonial law, such as that of France and England, in the hope of promoting material development.⁴⁸

Hence, Islamization uses Islamic law, in the course of which process, as Mayer observed, Islamic rulings have been redefined to suit the demands of the modern state. This is an important step towards ensuring that Islamic law can be implemented within the framework of contemporary administration. In this context, it is widely observed that in many cases Islamic law (*sharī'a* law) needs readjustment in ways that cause it to diverge from the original classical treatises.⁴⁹

Apart from the westernization which entailed the significant export of foreign law into Muslim states, the dormant development of Islamic law has been another challenge for Muslims. Between the 9th and 10th centuries, the Islamic framework for society and state was essentially viewed as fixed and determined – preserved in Islamic law and strongly guarded by '*ulamā*'.⁵⁰ Scholars, such as Schacht and Gibb, maintained that the gate of *ijtihād* was closed as early as the tenth century. Such a closure resulted in Muslims in general only following classical rulings that had been determined much earlier.⁵¹

Wael B. Hallaq, however, rejected this notion. According to him, the door of *ijtihād* was never closed since there were new *mujaddid* (religious restorer) and *mujtahid* (competent *sharī'a* interpreter) in every century; besides which there was a total lack of consensus among jurists of any period regarding such matters. Hallaq nevertheless admitted that the number of *mujtahid* considerably declined, particularly after the 16th century, which effectively thwarted the development of Islamic law; while the doctrine of *taqlīd* in the meantime was widely accepted.⁵²

It is difficult to ascertain with certainty who is more accurate in this debate, since both perspectives have their own merits. What we obviously observe in many classical books, especially after the formation of four mainstream Sunni sects, is that

⁴⁸ Mayer, "Law and Religion", 128.

⁴⁹ Mayer, "Law and Religion", 184.

⁵⁰ Esposito, *Islam and Politics*, 314-315.; Ali Khan, "The Reopening of The Islamic Code: The Second Era of Ijtihad", *University of St. Thomas Law Journal* (1)(1)(2003): 365-366.

⁵¹ Shaista P. Ali Karamali and Fiona Dunne, "The Ijtihad Controversy", *Arab Law Quarterly* (9) (3) (1994): 243.

⁵² For further discussion, see Wael B. Hallaq, "Was the Gate of Ijtihad Closed?", *International Journal of Middle East* (16) (1) (1984): 28-32.

the pattern of the ‘*ulamās*’ at that time was to occupy themselves mainly with commentaries and marginal notes on the writings of previous eminent scholars, adding little to the development of knowledge.⁵³ As was further evident from classical discourse after the 9th or 10th century, many ‘*ulamās*’ concluded that they no longer needed any new sect. Hence, they confined themselves to certain categories, on the assumption that they were not on a level that entitled them to form a distinct *madhhab* (sect).⁵⁴

Based on the above discussion, perhaps we could safely suggest that colonization has exaggerated the slow pace of *ijtihād*, which had occurred earlier, when the door of *ijtihād* was widely believed to have been closed. To ensure that the Islamization process can be successfully put in place, the *ijtihād* is needed wherever a creative way of solving problems needs to be found, thus making the departure from classical ways of thinking inevitable.

For a basic understanding of how this process might materialize, perhaps we should have a glance at the basic concept of *ijtihād*. *Ijtihād* represents a jurist’s exertion of the utmost endeavour to formulate a conjecture as to religious rules in such a way that reaching beyond it would be impossible.⁵⁵ This is an important way to find answers to any new problem regarding which no clear solution or evidence is found in the Quran and Hadith, through understanding the intention of the Lawgiver.⁵⁶ When this procedure is followed, the decision arrived at will not deviate from the spirit of those sources.

The *ijtihād* could take many forms, among which the most important are: 1. *Ijmā’*, the consensus of scholars of Islam after the demise of the prophet;⁵⁷ 2. *Qiyās*, meaning didactic analogy or, in other words, comparison with a view to suggesting

⁵³ Mohamad Hashim Kamali, “The Sharia: Law as the Way of God”, in *Voices of Islam*, ed. Vincent J. Cornell (USA: Praeger Publisher, 2007), 156.

⁵⁴ Khan, “The Reopening”, 365-368; Hallaq, “Was the Gate of Ijtihad Closed?”, 28-32.

⁵⁵ Abdul Aziz Othman Altwaijiri, “Ijtihad and Modernity in Islam”, *Journal Islam Today* available at isesco.org.ma/English/.../p1.php (accessed May 20, 2011); Rachel Anne Codd, “A Critical Analysis of the Role of Ijtihad in Legal Reforms in the Muslim World”, *Arab Law Quarterly* (14) (2) (1999): 115.

⁵⁶ Mohammad Hashim Kamali, *Principle of Islamic Jurisprudence* (Cambridge: Islamic Texts Society, 1991), 86; Khan, “The Reopening”, 345.

⁵⁷ Kamali, *Principle of Islamic Jurisprudence*, 169.

equality or similarity between two things;⁵⁸ 3. *Fatwā of ṣahaba*, the individual rulings of the Prophet's companions;⁵⁹ 4. *Istiḥsān* (equity), or authorizing departure from the existing rule when its enforcement leads to unfair results;⁶⁰ and 5. *Maṣlaḥa*, considerations which secure benefit or prevent harm but which are, simultaneously, in harmony with the objectives (*maqāṣid*) of the *sharī'a*.⁶¹

The active use of such methodology has proved that they are effective in keeping religion abreast of the constant development of society. The formation of various *madhhabs* is itself a manifestation of active and creative solutions found in conditions of total freedom for divergence of opinion between scholars.

The sweep of modernization in the 19th and 20th centuries clearly shows that the rich heritage of classical rulings was unable to keep pace with modern challenges. As observant Muslims lagged behind materially, many of them strayed from religion. Modern scholars accordingly called for a return to "creative" solutions through *ijtihād*. Jamal al-Din al-Afghani (1838-1897), Muhammad 'Abduh (1849-1905), Muhammad Rashid Ridha (1865-1945) and Muhammad Iqbal (1877-1938) are among those actively invigorating the idea of reform for Muslims all over the world. Having firsthand experience of western colonialism, these personalities demonstrated their sheer rejection of it. Al-Afghani, for example, clearly maintained that colonialism brought more suffering than scientific gain.⁶²

Al-Afghani firmly contended that Islam is most conducive to progress when Muslims do not fall behind their contemporaries by holding strongly to the religion.⁶³ On the question of the closure of the gate of *ijtihād*, he replied negatively by questioning the authority of any *imām* to declare that this was the case. Accordingly, he called for direct reference to the Quran and Sunna through analogical deduction, in keeping with modern science and the needs of the current age.⁶⁴

⁵⁸ Kamali, *Principle of Islamic Jurisprudence*, 197.

⁵⁹ Kamali, *Principle of Islamic Jurisprudence*, 235.

⁶⁰ Kamali, *Principle of Islamic Jurisprudence*, 245.

⁶¹ The objective consists of protecting the five essential values, namely religion, life, intellect, lineage and property. See Kamali, *Principle of Islamic Jurisprudence*, 86.

⁶² M.A. Zaki Badawi, *The Reformers of Egypt* (London: Croom Helm, 1978), 23.

⁶³ Badawi, *The Reformers*, 28.

⁶⁴ Badawi, *The Reformers*, 31-32.

Like his master Afghani, Muhammad ‘Abduh also denounced blind imitation and call for more liberal interpretation. In this context, he suggested that *sharī’a* consists of two major parts, *‘ibāda* and *mu’āmalā*, concepts which have been upheld by many succeeding modern jurists. The nature of the former, according to him, is clearly established in the Quran and Hadith, whereas the latter is not derived from unambiguous texts and so is subject to independent thought.⁶⁵ Among his rather controversial religious views are support for the legalization of shareholdings and of drawing interest from the post office.⁶⁶

Looking at this brief review of the reformers and their basic ideas, it is perhaps sufficient to observe a common pattern within which, in facing the modern challenge, modern jurists are inclined to employ fresh reasoning rather than continuing to hold tightly to classical opinions.

Through time, the idea and call initiated by a number of scholars have been slowly taken up by scholars worldwide. al-Mawdudi (1903-1979) and Sayyid Qutb (1906-1966), two famous scholars in mid of 20th century for example, maintained that Islam is the divinely mandated alternative to the western capitalism and communism. In this regard, western technology and science should be cautiously adopted and Islamized but its embedded values should be rejected.⁶⁷

Many modern scholars also are of the view that Islamization is a process by which Islamic principles and values are reapplied to meet the circumstances and needs of a changing socio-political milieu. They encouraged the establishment of Islamic banks and the creation of Islamic universities, and believed that Islamization can include the adoption of foreign systems that are not contradictory to Islam. They understood that they live at a time when specific programs can be actually developed and not simply advocated and written about by pioneering voices.⁶⁸

In sum, Islamization has diverse meanings, all referring to an ongoing process involving programs and agendas initiated by government and society in order to create a more Islamic system of governance. Religious institutions in this case, will

⁶⁵ Badawi, *The Reformers*, 82-83.

⁶⁶ Badawi, *The Reformers*, 83.

⁶⁷ Esposito, *Islam and Politics*, 317.

⁶⁸ Esposito, *Islam and Politics*, 317.

be under government patronage, with their expanded role not merely confined to religious piety as classically denoted, but including participation in the development apparatus. The process, apart from government initiatives, could also to an extent be instigated from the bottom by societies and activists. Both means of Islamization are pertinent for ensuring that Islamic values and culture become truly embedded in Muslim society.

Another element of this process that needs to be focused on is the concept of religious renewal through *ijtihād*. In order to Islamize the current “secular system”, the scholar cannot simply hold strongly to classical rulings. In this case, the advocates of reform promote a more democratic attitude to religion, with the interpretation of religious practice being based on modern perspectives rather than confined to the classical view, which was initially derived from medieval experience.

2.2.2 Zakat: a dynamic and adaptable institution

As the main focus of this thesis, it is pertinent to understand the basic concept of zakat. The present part hence will briefly provide general information regarding zakat, of which two characteristics will be given particular attention: adaptability of zakat to legal change, and the potential for the economic role that it is suggested zakat can play in the modern state.

Zakat (*zakāh* in Arabic) has been defined in almost all the major works of Islamic jurisprudence, by classical as well as contemporary jurists.⁶⁹ The word “*zakāh*” literally means “growth” or “increase” (as in the phrase *zakāt al-zar'*: the crop grew) and also purity (as in the Quranic phrase “*qad af laḥa man tazakkā*” (verily the pure one prospered). Accordingly, this religious duty has been so named with reference to the first meaning of the word, as its observance will lead to increased prosperity in this world and *thawāb* (growth of religious merit) in the

⁶⁹ Abdul Aziz Muhammad, *Zakat and Rural Development in Malaysia* (Kuala Lumpur: Berita Publishing, 1993), 29; al-Qardawi, *Fiqh az-Zakah*, xix.

hereafter. With reference to the second meaning, the payment of zakat gives purification from sins.⁷⁰

Zakat is the third pillar of Islam, after the obligation of *ṣalāh* (prayer) and *shahāda* (creed). The duty is mentioned 30 times or so in the Quran.⁷¹ As such, zakat, like other pillars of Islam, is a fundamental *‘ibāda* (religious duty) without the fulfilment of which one’s claim to be loyal to Islam can be seriously doubted.⁷²

Zakat, technically, stands for an act of monetary worship according to which any Muslim who possesses wealth (*māl*) equal to or exceeding a prescribed minimum limit (*niṣāb*) must give away a portion of it, at the specified rate, to designated categories of people.⁷³ The sources of zakat may include various types of wealth, such as livestock, agricultural produce, trade income and gold and silver.⁷⁴ As the situation changed and the zakat along with it, nowadays the taxable wealth has been expanded to comprise professional income, bonds and financial investment papers and other financial sources.⁷⁵

Apart from that, there is another type of zakat named *al-fiṭr* levied on each Muslim in every Ramadan. In this case, every individual has to submit for himself and their dependents one *sa’* or approximately 2.2 kilograms of staple food such as wheat, rice, dates and barley. The payment also could be made in the form of money. Despite of slight differences with zakat, in general, *al-fiṭr* is similar in other aspects especially in its mechanism of collection and distribution.⁷⁶

⁷⁰ Nicolas P. Agnides, *Muhammedan Theories of Finance: With an Introduction of Mohammedan Law* (Lahore: Premier Book House, 1969), 203.

⁷¹ Among the examples of the verses are: 2: 110, 2:177, 9:34-35, 9:60, 9:103 and many others; Mahmood Zuhdi Abd Majid, *Pengurusan Zakat* (Kuala Lumpur: Dewan Bahasa dan Pustaka, 2003), 8; Aron Zysow, “Zakat” in *The Encyclopedia of Islam*, v. 11 (Leiden: Brill, 2001):407.

⁷² Sayed Sikandar Shah Haneef, “Issues In Fiqh Az-Zakah: Implications for Islamic Banking and Finance”, *The Islamic Quarterly* (52)(2) (2008): 99.

⁷³ Haneef, “Issues In Fiqh Az-Zakah”, 98; Mek Wok Mahmud and Sayed Sikandar Shah Haneef, “Debatable Issues in Fiqh al-Zakat: A Jurisprudential Appraisal”, *Jurnal Fiqh* (5)(2008): 119; Omer Faruk Senturk, *A Comprehensive Guide to Zakat, Charity in Islam* (New Jersey: The Light Inc, 2007), 4.

⁷⁴ For further explanation regarding type of taxable assets refer: al-Qardawi, *Fiqh az-Zakah*, 101-291; Farishta G. de. Zayas, *The Law and Institution of Zakat*, ed. A.Z. Abbasi (Kuala Lumpur: The Other Press, 2003), 66-214; Zysow, “Zakat”, 411-414; Majid, *Pengurusan Zakat*, 119-314.

⁷⁵ Majid, *Pengurusan Zakat*, 315-367; al-Qardawi, *Fiqh az-Zakah*, 291-338; Zysow, “Zakat”, 418; Mahmoud Abu Saud, *Contemporary Zakat* (Cincinnati: Zakat and Research Foundation, 1988), 145-158.

⁷⁶ For further discussion please refer: al-Qardawi, *Fiqh az-Zakah*, 569-595; Zysow, “Zakat”, 418.

Besides stipulating the obligation to pay, the Quran also underlined clearly the rightful recipients of the fund, consisting of eight groups altogether. They are the poor (*miskīn*), the needy (*faqīr*), the zakat collector (*‘āmil*), those whose hearts are reconcilable (*al-muallaf qulūbuhum*), those in bondage (*al-riqāb*), those in the way of God (*fī sabīl allāh*), the debtor (*al-ghārimīn*) and the wayfarer (*ibn sabīl*).⁷⁷

As a religious monetary duty, zakat is indeed an institution highly adaptable to changes in its environment. This is not, however, to claim that the duty can be haphazardly shaped to suit contemporary settings; rather, in legal terminology, every aspect of it is subject to the employment of *ijtihād*. Although it is undeniable that some aspects of the duty can be clarified through reasoning, it is rather tricky to draw a line clearly indicating how far the process can be employed.

Mahmoud Abu Saud, a modern Islamic scholar, has elucidated the nature of the obligation. According to him, despite the essential role of zakat and its vital importance, its implications have been ambiguous since the dawn of Islam. He asserted that a cursory perusal of different scholars would reveal a strikingly broad divergence of opinion. Each scholar arrived at his conclusions through his own interpretation of the Quran and of the various hadith, taking into account the public interest as adjudged at the time.⁷⁸

The explanation of the issue is actually deeply rooted in the places where zakat was originally introduced. Of the general instructions pertaining to zakat given in the Quran's verses, some are dated as early as the Prophet's residence in Mecca, to be followed by the more serious version of the Medinan period. The zakat is prescribed through the verses revealed in the latter.⁷⁹ These verses, however, only present basic injunctions in which many rulings pertaining to the practical implementation of collection and distribution were left to the hadith. Hadith, in this regard, played a substantial role through giving examples and directions, detailing

⁷⁷ See Quran, 9:60.

⁷⁸ Saud, *Contemporary Zakat*, 2.

⁷⁹ Mohammad Akhtar Saeed Siddiqi, *Early Development of Zakat Law and Ijtihad* (Karachi: Islamic Research Academy, 1983), 39; al-Qardawi, *Fiqh az-Zakah*, 15-16.

the general Quranic commands, and converting its theoretical axioms into the living realities of human life.⁸⁰

In fact, the role of the Prophet in Medina was not only that of apostle of God but also that of head of state. Hence, as far as zakat is concerned, the Prophet's rulings pertaining to the obligation might possibly not constitute religious principles deriving from his capacity as a Prophet, but rather, as issuing from a head of state, might possess a type of authority dissimilar to the sanctity of purely religious rulings.⁸¹ This hypothesis can perhaps be strongly supported by Saud's further explanation. According to him, in many cases the hadith were based on a letter written by Abu Bakr, the first caliph, to his governor Anas Ibn Mālik. It is said that the letter was originally written by the Prophet but was never sent out or made public. This indicates, he argued, that the decree stands as a head of state's pronouncement rather than as a revelation. Accordingly, the ruling is considered indicative, not restrictive, and applicable merely to the necessities and requirements of the period.⁸² Considering the overall nature of the sources, it is unsurprising that later scholars, facing different societal problems, have shown greater variance in their rulings and legal conclusions.

Generally speaking, there are some aspects of the institution on which scholars have unanimously agreed; among others, the obligatory nature of zakat, the eligible recipients, and the traditional taxable wealth such as livestock, agricultural products and gold and silver, which have been established clearly by the Quran and many reputable Hadith.⁸³ There are nevertheless many disagreements about other aspects.

One issue which has attracted considerable attention among scholars is that of expanding taxable income. When the Quranic verses and hadith are consulted, besides a number of types of wealth being listed, as above, no indication can be found that either one or both of the main legal sources have identified only these types as subject to zakat. Additionally, the Quran (verse 9:103) simply gives "*māl*"

⁸⁰ al-Qardawi, *Fiqh az-Zakah*, 65, 22.

⁸¹ al-Qardawi, *Fiqh az-Zakah*, 153; Siddiqi, *Early Development of Zakat*, 54.

⁸² Saud, *Contemporary Zakat*, 3.

⁸³ al-Qardawi, *Fiqh az-Zakah*, 38.

(wealth) as a general connotation, which could be literally interpreted as comprising all wealth.⁸⁴

As a result, some jurists, especially contemporary ones, are of the view that the category of zakatable wealth should be expanded. In addition to the general connotation as mentioned above, they argued that zakatable wealth must conform to its basic *raison d'être*, growth. This concept was derived from the opinion of classical scholars such as al-Kasānī (died 1144) and Ibn Humām (died 1456), who maintained that the forms of zakatable wealth were chosen for their nature as growing wealth.⁸⁵ Using a similar rule, modern scholars such as al-Qardawi, Abdul Wahab Khalaf (died 1954) and Muhammad Abu Zahrah (died 1973), among others, asserted that the levy on wealth should be extended to cover all new sources of wealth, provided they meet that criterion.⁸⁶

In contrast to the above group, there are scholars, classical and modern alike, who did not support such a change. Classical jurists such as Ibn Hazm (died 1064) and al-Shawkānī (died 1834) favored restricting the sources of zakat to the eight types of wealth clearly stipulated by the Quran and hadith.⁸⁷ This is because they regarded zakat as a purely religious obligation which must strictly follow the clear text without incorporating any analogies.⁸⁸ This opinion in fact is still strongly upheld by some contemporary scholars, as is evident in the Fatwa by Organization of Islamic Conference Fiqh Academy produced at its meeting in 1985.⁸⁹

On the distribution side, as mentioned earlier, the Quran clearly stipulates the rightful recipients, who are the only ones entitled to receive the fund. Hence, there is no disagreement on this aspect, and equally no room for *ijtihād* and reasoning. The Quran, however, stops at this point, which indicates that the practical details of distribution to each group should be treated as an operational matter and left to the Hadith and to *ijtihād* on the part of later jurists.

⁸⁴ al-Qardawi, *Fiqh az-Zakah*, 19; Majid, *Pengurusan Zakat*, 77.

⁸⁵ al-Qardawi, *Fiqh az-Zakah*, 76-80; Saud, *Contemporary Zakat*, 68-69.

⁸⁶ Majid, *Pengurusan Zakat*, 117; Monzer Kahf, "Zakat: Unresolved Issues in the Contemporary Fiqh" *Journal of Islamic Economics*, (1)(2) (1989): 10.

⁸⁷ al-Qardawi, *Fiqh az-Zakah*, 81.

⁸⁸ al-Qardawi, *Fiqh az-Zakah*, 81.

⁸⁹ Kahf, "Zakat: Unresolved Issues", 10.

Concerning the issue of productive distribution, which is also the subject of this study, although no scholar totally rejects the idea, there are wide divergences on how distribution should be realized. As later chapters will illustrate, the scholars disagree on many aspects of implementation, such as the amount of distribution, ownership and the decision to spend, among others. Altogether, a great degree of effort has been put into the exercise of *ijtihad* by scholars, both modern and classical, in the search for practical decisions.

It is not our intention to go into unnecessary detail regarding those two issues. However, considering the above discussion in general, what concerns us is that the nature of zakat leaves ample room for change and further expansion. The general explanation given by the Quran and the non-restrictive approach of the hadith enable jurists to apply *ijtihad* to many aspects of zakat. Ultimately, this portrays the nature of the institution as indeed dynamic and adaptable to local needs.

Another aspect worthy of delineation is the potentially multifunctional role of zakat, which has led to its strong connection with the surrounding society and the political arena. In the present study, a prevalent theme that will emerge is the institution's ability to play an effective role in economic development in a particular political setting.

The economic potential of zakat actually stems from the very nature of the institution, which involves wealth. Hence, it is not hard to draw the connection between wealth and economics. Another element providing a strong potential link with economics is the nature of prescribed recipients outlined in the Quran, and clearly indicated by the above list, in which poverty is the problem that is taken seriously. According to scholars, it serves as a basis for the implementation of Islamic socio-economic justice, by which a certain portion of income is transferred from the haves to the have-nots.⁹⁰ Since, within the purview of economics, the potential roles of zakat are indeed various, we could perhaps have a quick look at the outline suggested by a writer with reference to numerous other zakat writings:

1. To promote economic growth and productivity through the circulation of wealth. The fund will enable the poor to become economically productive, or

⁹⁰ Hancef, "Issues In Fiqh Az-Zakah", 100.

will help the state to channel the zakat into wealth-creating business sectors with the aim of creating job opportunities for the needy and jobless.

2. To fulfill the consumption needs of the poor through enhancing their ability to purchase necessary goods and services.
3. To check the tendency to hoard idle money, since the uninvested money will be taxable.
4. To finance projects such as education, medical care and social welfare.
5. To reduce the gap between rich and poor.⁹¹

Such a huge objective will not be achieved without strong support from the government and the state. This connection is clearly pointed out by scholars, inasmuch as zakat is required by the concept of the Muslim community and Islamic state, within which it is the government's duty to administer the fund.⁹²

Overall, from the discussion in this section, we can conclude that zakat is dynamic in nature. There is ample room for revision in its practices, which can be adjusted to suit the needs of modern times. Apart from that, the institution can also function as a modern form of taxation and of national fiscal policy. These characteristics of zakat, as we shall see later, have a strong connection with the process of Islamization.

2.3 Islamization Impact upon Zakat Institution

Little is known of how zakat has been collected and distributed throughout Islamic history. The institution played an important role during the early days of Islamic caliphate which then unfortunately gradually faded and confined to the extent that it was merely as personal obligation. The history of earlier caliphs, especially Abū Bakr and 'Umar, indicates that the zakat has been strongly enforced and the duty significantly developed during their reigns. Abū Bakr, for example, sternly waged war against those who evaded the duty.⁹³ His era was perceived as establishing the very fundamental principle, as Rodney Wilson and el-Ashker

⁹¹ Haneef, "Issues In Fiqh Az-Zakah", 99-100; Mahmud and Haneef, "Debatable Issues in Fiqh al-Zakat", 121.

⁹² Saud, *Contemporary Zakat*, 1.

⁹³ Ugi Suharto, "Zakat as a Special Institution of Public Finance: Reflections from *Kitab al-Amwal* of Abu 'Ubayd", *al-Shajarah*, (6)(1) (2001): 62-65; Siddiqi, *Early Development of Zakat*, 83-87.

observed, that zakat as the form of Islamic taxation was a matter for the state, not for personal discretion.⁹⁴ This practice was continued by ‘Umar with a more proactive collection system. He posted collectors on roads and ports to check on and collect zakat from merchants. Some modifications were also introduced in his time, such as the termination of portion for those who might do harm to Muslims under the heading of “*al-muallafa qulūbuhum*” (whose hearts were to be won over), since the condition of Islam, according to him, was already strong and secure.⁹⁵

In the period after the fourth Caliph, the situation deteriorated because of the people’s growing perception that the governments were not committed to religion.⁹⁶ In fact, starting from the reign of the third caliph, ‘Uthmān (between 644 and 656), there were reports of mismanagement of the fund. Due partly to this situation, he introduced a new division of zakat sources into apparent and unapparent wealth. From then on, the government was only responsible for the apparent assets, mainly agricultural produce and grazing animals.⁹⁷

During the later Islamic Caliphates (approximately after mid of seven century), although zakat collection was still the responsibility of the state, there was no clear proof that it was functioning as well as it was supposed to according to religious rulings. There were also reports of mismanagement such as overcharging, improper reporting and distribution for political mileage.⁹⁸ On the legal side, the absolute power of the state to collect was also revised.⁹⁹ Finally, it was reported by some scholars such as Ibn ‘Abd al-Barr (died 1071) and al-Rāzī (died 1209) that by about 1100 AD the practice of zakat had become a largely personal matter.¹⁰⁰ The situation was unchanged during the era of colonization. Hence it is something not strange fact that zakat was in the colonial economic systems, there was neither

⁹⁴ Ahmed El-Ashker and Rodney Wilson, *Islamic Economics, A Short History* (Leiden: Brill, 2006), 98.

⁹⁵ Siddiqi, *Early Development of Zakat*, 94; Zysow, “Zakat”, 409; Majid, *Pengurusan Zakat*, 440.

⁹⁶ Suharto, “Zakat as a Special Institution”, 73; El-Ashker and Wilson, *Islamic Economics*, 156.

⁹⁷ Zysow, “Zakat”, 409; al-Qardawi, *Fiqh az-Zakah*, 482.

⁹⁸ The situation of improper accounting could be understood from: Abu Yusuf. *Kitab ul-Kharaj*, trans. (Lahore: Islamic Book Centre, 1979), 160; see also for the later caliphates’ practice: Yaacov Lev, *Charity, Endowments, and Charitable Institutions in Medieval Islam* (Gainesville: University Press of Florida, 2005), 39-45.

⁹⁹ Suharto, “Zakat as a Special Institution”, 73.

¹⁰⁰ Zysow, “Zakat”, 410.

proper management nor serious enforcement of zakat by states, and there was technically no room for the institution in those systems.¹⁰¹

It is interesting to note that, the image of zakat has gradually changed since 20th century simultaneously with the beginning Islamization programs. This era features its limited traditional role has been extended into a vital institution for promoting general welfare. The process of reviving the zakat institution began with the idea, in the mid of 20th century, of a handful of scholars who were of the strong belief that such an institution had been a central state fiscal policy during the era of the Prophet and the four rightly guided caliphs. However, the idea became a phenomenon when it was further explored by the end of 20th century. During this period, international seminars and serious commitment by a number of states played important roles in giving the zakat institutions a new image and improving their effectiveness.

The above brief history of zakat has been provided to show the condition of the institution before the Islamization era was ushered in. This was important to establish before we go on to the impact of that phenomenon and the extent to which it has influenced the institution.

Given the framework of this study, in which zakat is being subjected to scrutiny, Islamization could be understood as specific measures and campaigns that call for the reinstatement of Islamic doctrines in the Muslim socio-economic system. It is a force for the development and enhancement of the zakat institution, through which zakat's new roles are introduced. Hence, this study specifically refers to Islamization as any effort towards or means of encouraging the examination and implementation of new roles and initiatives involving zakat. To be more specific, income generation, which is a new form of disbursement, will be the main concern. And for a better understanding of this phenomenon, the impact of Islamization on the zakat institution can be detailed as follows:

¹⁰¹ M A Zaki Badawi, "Zakat and the Social Justice", in *The Muslim World and the Future Economic Order* (London: Islamic Council of Europe, 1979),113.

2.3.1 Reviving the zakat institution and its incorporation into modern economic development

Contemporary discussion of zakat differs from that in the middle ages, in that it is derived not merely from the *fiqh* but also from a practical socio-economic perspective. Consistent with Muzaffar's argument that Islamization is about distinguishing Muslim identity from others, some scholars have creatively argued that zakat is an Islamic fiscal policy which, unlike the secular tax system, is divinely sanctioned, as a result of which the payer will not only contribute to development but also gain a religious reward.¹⁰² However, fully conscious of the problems of zakat collection and the complexity of current demands, they recommended that zakat should be practically revised to suit these pressing needs.

Looking back at the dynamics of Islamization discussed earlier, we see that the process of reviving the institution could be initiated by either state or society. In the case of state Islamization, the zakat institution will be incorporated into broader state economic policy. Pakistan, for example, as we shall observe later, locates zakat at the very centre of its fiscal policy, complementing the country's taxation system.¹⁰³ On the other hand, at the social level, more effort has been observed to take place through proliferation of discussions and community collection initiatives. In this case, local agencies have multiplied, reflecting the higher awareness of Muslims. This latter situation has been much observed in countries such as Indonesia from the 1970s onward.¹⁰⁴

It is indeed true that the traditional way of collecting and distributing zakat has had no impact on development, as it has not been centrally collected and effectively managed.¹⁰⁵ In order to make it more effective, many Muslim scholars have proposed that the role of zakat should be promoted alongside economic tools such as poverty alleviation, income redistribution and investment. The later

¹⁰² Monzer Kahf, "Potential Effects of Zakat on Government Budget" *IJUM Journal of Economics & Management* (5)(1)(1997): 68; 79-80; F.R Faridi, "Zakat and Fiscal Policy", in *Studies in Islamic Economics*, ed. Khurshid Ahmad (Leicester: The Islamic Foundation, 1980), 123; 124-127; Afzalur Rahman, *Economic Doctrines of Islam* (Lahore: Islamic Publication Limited, 1986), 244.

¹⁰³ Esposito, "Islamization", 210.

¹⁰⁴ Taufik Abdullah, "Zakat Collection and Distribution in Indonesia", in *The Islamic Voluntary Sector in Southeast Asia*, ed. Mohammed Ariff (Singapore: ASEAS, 1991), 51.

¹⁰⁵ Timur Kuran, *Islam and Mammon, The Economic Predicaments of Islamism* (Princeton: Princeton University Press, 2004), 21-23.

commitment by states and society at large has significantly changed the image of zakat so that the collection and distribution mechanism has been to some extent improved.

Modern theoretical discussion of the zakat institution is not unorganized. Starting with a few initial advocates in the early period (approximately following the 1940s), such as al-Mawdudi and Sheikh Mahmud Ahmad, discussion increased after the 1970s.¹⁰⁶ The first seminar on Islamic economics in 1976, which marked the shift in Muslim thinking on economics from “economic teaching of Islam” to “Islamic economics”, has directly contributed to the proliferation of discussions of zakat.¹⁰⁷ This is not unexpected, as zakat is considered one of the fundamental characteristics of Islamic economics.¹⁰⁸ The practice of zakat in Muslim countries has, hence, been evaluated and compared and consequently improvements have been suggested. As an economic tool, zakat has been discussed within the context of development and poverty eradication.

As the aim of discussion has been mainly to improve the zakat institution’s effectiveness, many aspects have been suggested, with the use of zakat for generating income among the new mechanisms the exploration of which has been proposed. This process can also be considered part of the Islamization of the institution, whereby scholars individually and collectively strive for ways to make Islamic institutions more effective. Within the purview of zakat, these efforts are part of the continuous and gradual process of Islamization, pursuing the ultimate goal of positioning such an institution as national economic policy.

The idea of using zakat for income generation has evolved within the broader development of modern zakat discussion, having been raised around mid of 20th century. The idea was further discussed by Muslim economists such in many seminars and writings and has also been implemented by a number of countries such

¹⁰⁶ For examples, refer: Ahmad, *Economics of Islam*, 81-108; Abu A’ala Al- Mawdudi, “The Nature of Zakat and its Rules”, in *Economic System of Islam*, ed. Khurshid Ahmad (Lahore: Islamic Publication Limited, 1984).

¹⁰⁷ John L. Esposito, and John O. Voll, “Khurshid Ahmad: Muslim Activist- Economist”, *The Muslim World*, (80) (1) (1990): 31.

¹⁰⁸ Kuran, *Islam and Mammon*, 39.

as Pakistan, Indonesia and Malaysia. The pattern of emergence of the initiative will be elaborated on in a later chapter.

From the above discussion, we can see that Islamization has inspired the effort to revive the zakat institution and eventually expand its role. In this respect, the purpose of the zakat institution is not only to collect and distribute wealth but also to ensure that the distribution benefits the eligible recipients. Hence, it is suggested that zakat improve its practice consistently with its new role as a modern economic tool.

2.3.2 Legal reinterpretation in the zakat rulings (through *ijtihād*)

In the course of enhancing the institution, some improvements and modifications have to be made. The new extended role poses a juristic challenge to the classical outlook. There have been some suggestions for adjusting the traditional view, involving, for example, the revision of zakat rates, the extension of taxable wealth and the use of zakat for productive purposes. The last suggestion represents the area of particular interest to this research.

It is worth recalling that the nature of zakat is unique, as compared to the other pillars of Islam, in the sense that it is a hybrid between ritual and revenue raising, considered as a human affair. Hence, zakat can technically be seen as a monetary form of worship, or divinely ordained act of worship with fiscal aspects. In this respect, Islam gives humans so much scope, on the basis of their wisdom, for determining their own preferences in relation to human affairs, with only those practices which fall completely under the doctrine of '*ibāda*' being prohibitively modified.¹⁰⁹

The 20th and 21st century scholars who are interested in zakat have shown their eagerness to revise the classical heritage and investigate unsolved problems through *ijtihād*. As briefly discussed in the section pertaining to the basic concept of zakat, scholars such as al-Qardawi, Saud and many others call for revision of many aspects of zakat including the scope of wealth, the taxable limit and the classical

¹⁰⁹ Mahmud and Haneef, "The Use of Zakat", 2; I.A Imtiaz, "A Model System of Assessment, Collection and Distribution of Zakat", *Journal of Islamic Banking and Finance* (3)(2)(1985): 30; Badawi, "Zakat and Social Justice", 113-114; al-Qardawi, *Fiqh az-Zakah*, xxxvi.

practice of distribution. In this context, the ideas of earlier reformers have to an extent inspired these scholars. This pattern can be indirectly observed from several examples. In giving his judgement regarding the distribution for *fī sabīl allāh* (in the way of Allah), al-Qardawi for instance based his view on Rashid Ridha's. Ridha, on this point, was of the opinion that the fund in this category could be used for broader public welfare in projects such as the construction of roads and bridges.¹¹⁰ This obviously had some influence on Qardawi's decision when eventually he gave positive rulings on many initiatives such as the formation of Islamic centres and propagation using zakat money.¹¹¹ In another case, Iqbal's opinion has to a lesser extent influenced the idea of Mahmud Ahmad, among the proponents of modern use of zakat. Ahmad in his writings on zakat has recommended *ijtihād* regarding many aspects, on the understanding that the method could improve the institution. Revealing that his idea was considerably inspired by Iqbal, he cited Iqbal's poems at the end of his analysis.¹¹²

It should be noted, however, that, in this particular context, the present thesis is confined to the question of the new practice of income generation, in relation to which the difference between classical and modern rulings will be elucidated in later chapters. As for the basic theme of this section, it is sufficient to argue that the idea of fresh *ijtihād*, advanced by early reformers as an element of the Islamization process, has to certain extent influenced the concept of zakat in modern discussions.

In the employment of *ijtihād*, modern scholars generally use three methods which can be briefly summarized as: 1. *ijtihād istiṣlāḥī*, which means defining the essence of *sharī'a* in general, so that it is adopted as a source of legislation, to be ultimately used as a reference for deducing the right ruling in any new matter in terms of *istīṣlah* (public welfare); 2. *ijtihād bayānī*, applied to cases that are explicitly mentioned in the Quran and Hadith but need further explanation; and 3. *Ijtihād Qiyāṣī*, applied to cases that are not mentioned in the Quran and Hadith but are similar to cases mentioned in either of them. In this procedure, the first method

¹¹⁰ al-Qardawi, *Fiqh az-Zakah*, 416.

¹¹¹ al-Qardawi, *Fiqh az-Zakah*, 428.

¹¹² Ahmad, *Economics of Islam*, 108.

can only be practised on the condition that the latter two methods prove unable to yield a sound decision.¹¹³

In addition to the aforementioned methods, scholars apply the concepts of *takhayyur* and *talfīq*. *Takhayyur* (selection) technically involves the incorporation of less credible opinions from any school of law.¹¹⁴ *Talfīq* (amalgamation) means combining in one opinion elements from various quarters within and outside the school. Although this device is not genuine *ijtihād* by nature, it has been widely used today in many legal reforms in areas such as family and inheritance law.¹¹⁵

To give us a brief summary of how today's *ijtihād* should be practised, especially in the area of zakat, al-Qardawi has offered a guide to deduction methods which, according to him, provide the best way of finding a new solution. In his view, the *ijtihād* needed in modern times could take two forms, selective and creative. Selective *ijtihād* involves selecting one of the opinions in our large legal legacy to give a sound judgement through drawing an analogy between different examples of textual and *ijtihād* evidence. Ultimately, we choose the most conclusive evidence, taking into account the current needs and requirements which impose on the modern jurist the obligation to issue practical and feasible rulings. As for creative *ijtihād*, it is applied in most cases to completely new matters.¹¹⁶

In sum, the Islamization process has sparked significant interest among modern scholars in re-evaluating traditional zakat rulings and ultimately in employing *ijtihād* to form opinions based on current needs and modern requirements. This procedure is imperative to ensure that the intended change in the practice of zakat can be realized without encountering serious juridical hindrance.

From the discussion of both effects of Islamization upon zakat, we can finally conclude that Islamization has indeed considerably influenced the modern zakat institution, in that the former has engendered the drive to renew and revive the latter. This process will consequently give new meaning to the expansion of zakat's role

¹¹³ Altwaijiri, "Ijtihad and Modernity in Islam".

¹¹⁴ Wael B. Hallaq, *Sharī'a, Theory, Practice, Transformations* (Cambridge: Cambridge Press University, 2009), 448.

¹¹⁵ Hallaq, *Sharī'a, Theory, Practice, Transformations*, 448.

¹¹⁶ Altwaijiri, "Ijtihad and Modernity in Islam"; Yūsuf al-Qaraḍāwī, *al-Ijtihād fi Sharī'at al-Islām* (Kuwait: Dār al-Qalam, 1996), 115, 126.

beyond what has been traditionally determined. The process then generates not only economic but also religious effects whereby the reconsideration of classical views is constantly called for.

Islamization should not, however, be conceived of as an antidote to all ills, since the problems of Muslim countries have persisted for a long time. The use of Islamization to relieve the problems must be applied through a gradual approach. Chapra, in this regard, suggested that such a change cannot be achieved instantly through the use of force and regimentation. Wisdom and understanding, according to him, must be the pillars of Islamization as required by the Quran, in which connection he observed that even the Prophet encouraged gradual transition by his own example.¹¹⁷

2.4 Conclusion

Islamization is a phenomenon where Muslims are trying to solve their socio-economic problems through Islam. This strategy has emerged from the rejection of the colonial system which they regard as the cause of their backwardness. The process of Islamization is aimed, to a certain degree, at achieving a greater role for Islam in the nation-state, although not all states choose to become fully Islamic. Many of them only adopt selective elements of Islam, in keeping with the condition and needs of the particular state, as shown in the continuum suggested by Salim.

As a result of the Islamization phenomenon, Islamic institutions are being revived and strengthened to address modern problems. What is needed in addition is a stronger commitment to revising the tradition, in order to ensure that classical practices do not hinder the proposed contemporary developments.

Islamization provides a space within which Islam and its institutions, including zakat, can play an important role in private and state affairs. Zakat is a unique institution in the sense that it has flexible legal attributes which can adapt to change in its surroundings. Apart from that, the discussion in the second section of

¹¹⁷ Chapra, *Islam and the Economic Challenge*, 353.

this chapter has revealed that zakat also has strong links with wealth, thus ultimately offering potential for development.

Consequently, as a result of Islamization's impact, the role of the institution has evolved gradually yet significantly. Since the beginning of the 20th century, scholars have suggested that the role of the institution be expanded, not merely as a religious duty but as an economic policy of the state. Indeed the initiative is not merely theoretical but to a considerable extent has been transferred to the real world.

In regard to the legal impact of Islamization upon zakat, the latter has been in the forefront of continuous endeavours by modern scholars to come up with new rulings affecting it. These scholars normally use economics to support their arguments, while, in this context, the *ijtihād* approach incorporating *talfīq* and *takhayyur* has been used alongside other more ingenious approaches. Overall, zakat is eventually no longer a dormant '*ibāda*, but a significant tool of the economy.

Throughout this chapter, we have gained a clear picture of the dynamics of Islamization and its influence on the zakat institution. This study hence, considers Islamization as any effort towards or means of encouraging the examination and implementation of new roles and initiatives involving zakat. In addition, the spirit of *ijtihād*, has promoted the more creative approach to handling the fund. Income generation programs through zakat, hence, will be seen as a result of this continuous effort. The discussion pertaining to the program will, however, be pursued further in the coming chapters.

CHAPTER 3

CONCEPT AND MECHANISM OF INCOME GENERATION THROUGH ZAKAT

3.1 Introduction

This chapter seeks to define income generation through zakat. In the theoretical sphere, income generation through zakat is a new mechanism which modern scholars have proposed as a way of refining the zakat distribution system. It is also apparent that the initiative has been implemented by a number of Muslim countries as an outgrowth of Islamization. Hence, the Islamization process has to a certain extent brought zakat into the fundamental domain of development. With reference to the objectives of the thesis, this chapter will try to partly fulfil the second objective. Another part of the objective will be accomplished by the next chapter.

The chapter consists of three main parts. The first part will look at the concept of poverty eradication and income generation from the standpoint of modern development. It is important to understand this concept before we investigate further the use of such a program in conjunction with zakat. Such an initiative has been implemented in many developing countries since the end of 1970s. It is primarily a development initiative for eradicating poverty through poor people's own efforts, by encouraging them to be productive. 'Productive' in this case refers to a situation in which they can work and sustain themselves without depending on continuous dole.

The second part shows the extent to which such an initiative has been theoretically touched on by Muslim scholars and economists. It appears that many Muslim writers from the mid-twentieth century on have briefly considered the use of zakat for enhancing the capabilities of the recipients. In this aspect, their view might be to certain extent influenced by the then situation where modern income generation was started to be micro development approaches widely adopted in many countries. From a survey of relevant writings we can also see that the program has been implemented by some Muslim countries since the 1980s as a result of the impact of Islamization in these countries.

Following the survey of writings in section two, the third section tries to sketch the basic mechanism of income generation through zakat and provide a definition of it. The section also seeks to explain the overall concept and various aspects of the program. It has been recommended that zakat be used not merely to disburse financial aid but also to incorporate non-monetary benefits such as training and advisory assistance. Indeed, a closer look will reveal that zakat has been proposed for incorporation into the new development mechanism of income generation, akin to what was outlined by the modern development writers discussed in an earlier section. Discussion of the concept of income generation through zakat is a new venture undertaken by this thesis; the subject has not been examined exclusively in any previous writing.

The chapter from this point on will show how Muslim writers and scholars collectively or individually have given zakat a new interpretation, engendering a greater role for the religious institution in economic development.

3.2 Income Generation as a Poverty Alleviation Strategy: Modern Development Approach

Poverty in modern economics is described as the condition of having little or no wealth or few material possessions.¹ It is a social and political construction linked to individual ownership, remuneration and valuation. The practical definition of poverty varies from one country to another as the conditions resulting in poverty also differ. For example the ownership of twenty-five acres of land can make people poor in a desert country but rich in a fertile country.²

One of the most popular mechanisms to measure poverty is through Poverty line income (PLI). PLI is defined as the income required to maintain a family in good nutritional health as well as to satisfy minimum conventional needs in respect of

¹ The New Shorter Oxford English Dictionary (electronic resource) <http://dictionary.oed.com.ezproxy.lib.ed.ac.uk/> (accessed February 3, 2009)

² Muhammad Yunus and Alan Jolis, *Banking for the Poor, the Autobiography of Muhamad Yunus*, Founder of Grameen Bank, (London : Aurum Press Ltd, 1998); Tri Lisiani Prihatinah, "Women and Income Generating Projects: The Gender Impacts of Indonesian Government Policies", Phd Thesis, Murdoch University, 2005, 18.

clothing, household management, transport and communication.³ The PLIs in Malaysia for example, is estimated to be RM800. The limit is actually based on minimum cost of a food basket that could provide enough nutrition to sustain good health.⁴

As poverty is a complex problem, there is no single universal strategy could effectively eradicate it. At the macro level, development and economic growth are main strategies to mitigate poverty as it is widely assumed that rapid development tends to bring more opportunities to the whole community, thus increasing their income together with the poor.⁵ In Indonesia, for example, massive primary school construction has substantially increased the education level which then enabled the poor people to obtain better job opportunities. In this case, the primary school graduation rate rose 12 percent while income wages increased by 2 percent.⁶

From the micro level, income and wealth typically have a direct relation with the entitlement concept. Entitlement is a set of alternative commodity bundles that a person can command in a society in using the totality of right and opportunities that he or she faces.⁷ A person's "entitlements set" is the full range of goods and services that he or she can acquire by converting his or her endowment (asset and resources including labour power) through entitlement exchange.⁸ If the income of the household derived from various entitlements is less than the poverty line, then it will be considered poor.⁹

As far as the microeconomic aspect of poverty is concerned, the poverty could be eradicated by raising the income of the individual. In this aspect, Habib

³ Sudhir Anand, *Inequality and Poverty in Malaysia, Measurement and Decomposition* (London: Oxford University Press, 1983), 114.

⁴ Government of Malaysia, *Tenth Malaysia Plan 2011-2015* (Putrajaya: Prime Minister Department, 2011), 397; Malaysia, *Second National Economic Consultative Council-MAPEN II* (Putrajaya: Prime Minister Department, 2001), 531-536.

⁵ Habib Ahmed, *Role of Zakah and Awqaf in Poverty Alleviation* (Jeddah: IDB, 2004), 60.

⁶ Esther Duflo, "Schooling and Labor Market Consequences of School Construction in Indonesia: Evidence from Unusual Policy Experiment, (Massachusetts: Massachusetts Institute of Technology, 2006) as cited in World Bank, *World Development Report 2000/2001* (New York: Oxford University Press, 2000), 57.

⁷ Amartya Sen, *Resources, Values and Development* (Oxford: Blackwell, 1984), 497.

⁸ See Amartya Sen, *Poverty and Famines*, (electronic resource), <http://www.Oxfordscholarship.com.ezproxy.webfeat.lib.ed.ac.uk/oso/public/content/economicsfinance/9780198284635/toc.html>, accessed Feb 2, 2009; Stephen Devereux, "Sen's Entitlement Approach: Critiques and Counter Critiques", *Oxford Development Studies* (29)(3) (2001): 246.

⁹ Ahmed, *Role of Zakah and Awqaf*, 59.

Ahmed, for example argued that poverty could be alleviated through capacity building and wealth creation as well as income support. The first approach relates to the productive or a person who have capacity to work, whereas the latter designed for the incapable one. He asserted that creating opportunities for the productive household will consequently enhance income generating capabilities and their entitlements, therefore the level of income will be increased for longer period of time.¹⁰ Differing from the productive household, the non-productive could be helped through charitable acts by members or institutions in a society or through social security benefits from the government. The periodic stipend from these sources will sustain the non-productive members in the society with a minimal livelihood.¹¹

Although it is not clear who first came up with the idea of enhancing capabilities as a means of eradicating poverty, such an initiative has been gradually emerging as a popular strategy since approximately in the 1970s, when many developing countries started to revisit their development strategies due to the fact that these approaches had yet to reduce social inequality. In the 1950s and 1960s, many newly independent countries focused on growth and development, especially through increased exports and industrialization, as well as on massive agricultural projects, the strategies which seemed most conducive to economic recovery after the Second World War.

Governments encouraged local and international investors to build factories for large-scale production of goods, preferably for export. In Southeast Asian countries like the Philippines, Malaysia and Thailand during the 1960s, tax concessions were granted for operating factories. Finance at low interest rates was also easily obtained. Lower monetary exchange rates as compared to western countries' currency, notably the US dollar and the pound, further facilitated exports.¹² A more or less similar approach was adopted by South Asian countries through improving the urban infrastructure, expanding ports, and improving the power supply to support industrialization. As a result, in the early 1960s, countries like Pakistan, Sri Lanka and Bangladesh, alongside their continuing reliance on

¹⁰ Ahmed, *Role of Zakah and Awqaf*, 61-62.

¹¹ Ahmed, *Role of Zakah and Awqaf*, 62.

¹² H. Myint, *Southeast Asia's Economy, Development Policies in the 1970s* (Middlesex: Penguin Books Ltd, 1972), 38.

agriculture, succeeded in achieving up to 10% exports as a percentage of Gross domestic product.¹³

In the area of rural development, many countries embarked on enhancement of the agricultural sector, a strategy popularly known as the Green Revolution. This move was intended to raise the living conditions of farmers, who in many countries constituted the largest segment of the population. In this project, governments stimulated agricultural production in various ways such as providing modern fertilizer and introducing new, improved varieties of seedlings. They also expanded the cultivated land area and built modern irrigation systems. India and Pakistan, for example, irrigated respectively over 30 thousand and 12 thousand hectares of agricultural land (according to 1970 statistics).¹⁴ Consequently, both countries increased production of their staple foods rice and wheat, between almost 2% to more than 5% annually (based on statistics for the years 1965 through 1973).¹⁵

Both industrialization and the Green Revolution are macro approaches whereby massive projects initiated by the government were directed towards the population as a whole. The strategies generally enabled the population – that is, those who were productive – to keep busy helping themselves, thus releasing them from economic dependency, and ultimately enabled the countries to export their products. Between the 1950s and 1960s, economic growth in Southeast Asian countries, for instance, attained rates of between 5 and 7 percent, whereas rates for countries in south Asia reached between 3 and 5 percent, showing that the strategies adopted had positive effects.¹⁶ Encouraged by such growth rates, governments expected that the income obtained by the majority of the population through economic enhancement would be shared equally with the rest, providing the opportunity for all to flourish and thus eradicating poverty. This did not turn out to be the case, however, as in the 1970s poverty and inequality were still found to be rampant.

¹³ United Nation, *Development Strategies for the 1980s in South East Asia* (Bangkok: United Nation, 1981), 57.

¹⁴ United Nation, *Development Strategies*. 58.

¹⁵ United Nation, *Development Strategies*. 58.

¹⁶ United Nation, *Development Strategies*, 56; Myint, *Southeast Asia's Economy*, 27.

By the mid 1970s, there was growing realization that economic growth and general development efforts had not made much of a dent in poverty.¹⁷ For example, in the middle of the decade, almost 50% of Bangladeshis were still undernourished while in the Philippines 38% of families still consumed less than 80% of the minimum adequate level of nutrition.¹⁸ The situation was similar in other countries such as Malaysia, Indonesia and Pakistan.

As a reaction to the poverty problem, governmental and non-governmental bodies in many countries introduced a more focused, micro approach to poverty eradication through income generation, in which category many programs have gradually emerged since the early 1970s. One of the bodies involved was the Self Employed Women Association (SEWA), established in 1972 to support tens of thousands of self-employed women who were among the lowest income earners in India. In that country, 90% of the working women (including small traders, home-based producers, cleaners, cigarette makers and farm labourers) were engaged in unorganized sectors in which their welfare was unprotected, and were thus easily exposed to exploitation.¹⁹

Since its establishment, SEWA has been helping women through setting up numerous cooperatives pursuing a wide range of economic activities such as craft making, agriculture, livestock rearing, trading and vending as well as service activities.²⁰ Through this initiative, members can obtain other support services such as training and cheaper production inputs. In addition, through the cooperatives, they can sell their finished products for a more stable and reasonable profit. In 1973, SEWA began to provide loans for its members to enable them to enhance their

¹⁷ Anill Bhatt, "Critical Elements in the Design of Poverty Alleviation Programmes", in *Reaching Out Effectively: Improving the Design, Management and Implementation of Poverty Alleviation Programmes*, ed. Ismail P. Getubig, Jr, and M.Khalid Shams (Kuala Lumpur: Asian and Pacific Development Center, 1991), 31.

¹⁸ S. C. Dube, *Development Perspective for the 1980s* (Kuala Lumpur: Asian and Pacific Development Center, 1984), 58-59.

¹⁹ S. Tilakaratna, "Capacity Building of the Poor" in *Reaching Out Effectively: Improving the Design, Management and Implementation of Poverty Alleviation Programmes*, ed. Ismail P. Getubig, Jr, and M.Khalid Shams (Kuala Lumpur: Asian and Pacific Development Center, 1991), 64.

²⁰ Anil Bhatt and Jayshree Vyas, "Sewa Co-Operative Bank: Design and Delivery of Banking for Poor Women" in *Reaching Out Effectively: Improving the Design, Management and Implementation of Poverty Alleviation Programmes*, ed. Ismail P. Getubig, Jr, and M.Khalid Shams (Kuala Lumpur: Asian and Pacific Development Center, 1991), 78.

businesses. SEWA's performance is very encouraging; by the end of the 1980s it had more than 30 000 depositors and approximately 8000 borrowers with only a 10% default rate. It has also been recognized by the Indian government, which granted SEWA the right to set up an Unorganised Labour Board in 1980, with further recognition extended by the International Labour Organization.²¹

Another important income generation initiative is Grameen, established in Bangladesh in 1976 by a professor from the University of Chittagong, after his research found that the poor could be helped out of poverty by means of financial aid. He ran a pilot project in a village near his university which was later replicated in many districts throughout Bangladesh.²²

Since its establishment, Grameen has been targeting neglected landless people who had no opportunity to obtain financial help from any other party. Through close monitoring systems and a systematic group arrangement, Grameen has been providing its members with loans enabling them to be productive, thus utilizing resources to generate income. As a strict commitment, members must make their payments weekly; otherwise fellow members of the group will put pressure on them.

Grameen achieved great success, showing that such a scheme could significantly improve the lives of the poor. In the mid 1980s, for instance, its members' annual income increased more than 30% within 2 years of membership, while the standard national increment in income was merely 2.5% for a similar interval. Moreover, the members' spending capacity to meet health, housing and clothing needs increased between 2 and 4 times.²³ Its success was such that the founder of the Grameen project was awarded the Nobel Peace Prize in 2006 for his contribution to economic development.

²¹ Tilakaratna, "Capacity Building of the Poor", 66.

²² Mohammad Siddiqur Rahman *et.al*, "From Calories to Capacity Building- The Grameen Bank Approach to Poverty Alleviation" in *Reaching Out Effectively: Improving the Design, Management and Implementation of Poverty Alleviation Programmes*, ed. Ismail P. Getubig, Jr, and M.Khalid Shams (Kuala Lumpur: Asian and Pacific Development Center, 1991), 97.

²³ Rahman *et.al*, "From Calories to Capacity Building", 109.

Many other successful income generation programs emerged during approximately the same decades as the above-mentioned projects, such as the Aga Khan Rural Support Program of Pakistan, the Bharat Agro Industries Foundation of India (both established in 1982) and the Small Farmer Development Program in Nepal and Thailand (established in 1987).²⁴ All these projects give financial and technical assistance to the poor. Through the programs' workers and volunteers, the beneficiaries are carefully selected and given suitable help with which to sustain themselves. Successful projects have been duplicated in many other countries. Indeed, nowadays almost all developing countries have organizations running income generation programs, which provide what are normally called "micro finance" and are internationally recognized as poverty eradication mechanisms.

What can be seen from this discussion is that twentieth-century economic development strategies have been concerned with employment creation and labor incentive instruments. On the macro scale, governments have focused on the Green Revolution and industrialization, providing better farming systems and encouraging mass production, in order to achieve higher economic growth overall. But the benefit of macro strategies was not necessarily shared by all; hence poverty remained rampant. To alleviate poverty, income generation was later given attention by the government and non-governmental agencies to complement the earlier macro strategy.

Thus, from the discussion, it is clear that activity to generate income, or what, as we shall see shortly, is also known as "income generation", is a poverty eradication strategy. This concept can be further elaborated on as follows.

²⁴ Anil Bhatt, "Livelihood Approach to Poverty Alleviation: BAIF's Tribal Development Project in South Gujarat", in *Reaching Out Effectively: Improving the Design, Management and Implementation of Poverty Alleviation Programmes*, ed. Ismail P. Getubig, Jr, and M.Khalid Shams (Kuala Lumpur: Asian and Pacific Development Center, 1991), 126; Afzal Nascem, "Village Organisation Approach of AKRSP: The Case of Sherabad-Roshanabad in Pakistan", in *Reaching Out Effectively: Improving the Design, Management and Implementation of Poverty Alleviation Programmes*, ed. Ismail P. Getubig, Jr, and M.Khalid Shams (Kuala Lumpur: Asian and Pacific Development Center, 1991), 156; Pote Chumsri, "Small Farmers' Development Project in Thailand", in *Reaching Out Effectively: Improving the Design, Management and Implementation of Poverty Alleviation Programmes*, ed. Ismail P. Getubig, Jr, and M.Khalid Shams (Kuala Lumpur: Asian and Pacific Development Center, 1991), 206.

3.2.1 The concept of income generation

Income Generation Programs (IGPs) is defined as a targeted and deliberate intervention from the government or non-government to assist the initiative of poor people, for example, by helping them to improve the existing skills or join together to increase their economic power. The supporting agencies, in this aspect, are called interveners and the activities and skills which the beneficiaries are involved in are referred to as Income Generating Activities (IGAs).²⁵

The main objective of the program is to help poor people generate income and induce self-sufficiency so that they will be entirely independent after the program ends. This is however not the only desirable goal for an income generation program. There are many other objectives could be achieved which are, among others, building just economic relations²⁶, creating work satisfaction and the enhancement of the participants assertiveness, self confidence as well as mutual support and organization²⁷.

In Income generation programs, intervener agencies usually offer more than one service which are offered in a package. Such a package usually comprises provision of small capital through grants or loans, training or advice in skills or small business management and other support services such as marketing and provision of temporary trained personnel.²⁸ All the services can be grouped into several areas as about to be discussed as follows:

1. Financing

Financing is an important area in income generation programs. The financing provided for the poor is very important, as they usually have limited access to the capital to expand their economic activities. This is due to a number of factors including limited assets to be pledged²⁹, government and institutional failure³⁰ and

²⁵ Donnacadh Hurley, *Income Generation Schemes for the Urban Poor* (Oxford: Oxfam, 1990), iv.

²⁶ Hurley, *Income Generation*, 38,116.

²⁷ Depa Narayan *et.al*, *Voices of the Poor: Crying out for Change*. (New York: Oxford University Press, 2000), 62; Helen Todd, *Women at the Center* (United States: Westview Press, 1996).

²⁸ Hurley, *Income Generation*, vi.

²⁹ Anne Ritchie, "Grant for Income Generation", in *Agricultural and Rural Development Notes*, issue 20. (Washington: World Bank, 2006), 6.

³⁰ Douglas R. Snow and Terry F. Buss, "Development and the Role of Micro Credit". *Policy Studies Journal* (29) (2) (2001): 296-298.

the poor attitude towards risks.³¹ Thus, in many cases the poor turn to easier access credit such as borrowing from family members and private money lenders. This however will only have little or even no positive impact as the money lent by families is a relatively small amount and money lenders tend to charge extremely high interest rates.³²

As to solve the above problems, income generation programs could offer financing to the poor either in the form of loans or grants. Grants are appropriate option in circumstances involving substantial loan amounts that the repayment would be impossible. This is often why large grants are given to groups to establish production units which require expensive machinery and other inputs.³³

Apart from that, grants could also be given to the poor who are too vulnerable to take on the risk of a loan. Without pressure to repay, grants however, may encourage misuse or poor use of funds and the development of dependent attitudes. As an alternative for the grants, credit, which requires repayment, has a great advantage of forcing the participants to take responsibility for the funds and to consider the economic viability of the productive investment. Thus, credit is usually a more appropriate form of assistance to income generation activities than a grant or subsidy.³⁴

2. Advisory and Training

The provision of advice to the participants and beneficiaries is very important during the process of program implementation. Training and advisory are means of knowledge transfer from the intervener to the poor to ensure that they can benefit from the intervention. In general, the advisory service is less structured compared to the training service.

An advisory service could be channeled through responsive centers or extension officers. The responsive centre is an approach in which the poor can visit the center and seek advices they need. On the other hand, extension officers are

³¹ Syed.M Hashemi, "Those Left Behind: A Note on Targeting The Hardcore Poor", in *Who Needs Credit; Poverty and Finance in Bangladesh*, ed. Wood G.D and Sharif I.A, (London: Zed Books, 1997), 254-255 ; Hurley, *Income Generation*,123.

³² Narayan, *Voices of the Poor: Can anyone Hear Us?*,167.

³³ Ritchie , "Grant for Income Generation", 3; Hurley, *Income Generation*,126.

³⁴ Hurley, *Income Generation*, 126.

whom obliged to meet directly with the poor to give necessary advices and recommendations.³⁵ These services however should not make the participant totally dependent on the advisors as they should take more responsibility on their own decision.

As for the training, it is a useful strategy to develop beneficiaries' skills especially those which involve more complicated skills. There are different types of training such as vocational training and apprenticeships. Vocational training usually refers to the technical courses offered by vocational technical institutions (VTIs) focusing on the skills which have high demand in the wage employment market or many opportunities for self-employment.³⁶ Vocational institutions however often charge expensive fees and located in developed areas resulted the exclusion of the poor from benefiting. Hence, the government or bodies offering income generation programs could provide the poor with trainings that suit the needs of the poor for free or within their financial capability.³⁷ There are NGOs actively runs free or low fees training centers in rural areas which have greater potential for directly impacting on poverty reduction. In Tanzania, for example many churches located in rural areas have been providing poor with two-year courses in manual trades with relatively low fees.³⁸

Different from training which uses classroom as its main medium, apprenticeships are one way of transferring employment related skills through the place of work. At the beginning stages, the master or the employer watches over the apprentice closely and intervenes at all crucial stages. As the apprentice becomes progressively more skilled, the direct intervention from the master will be reduced and the apprentice is assumed to be more responsible to his/her own work.³⁹

³⁵ Hurley, *Income Generation*, 113.

³⁶ John P. Grierson and McKenzie Iain, "Introduction" in *Training for Self Employment through Vocational Training Institutions*, ed. John P. Grierson and McKenzie Iain (Geneva: International Labour Office, 1996), 15.

³⁷ Refer to: <http://www.calcuttasocialproject.com/income.htm> VT1 and <http://www.sdc.org.bd/en/Home/Education/UCEP> (accessed on Feb 4, 2009)

³⁸ Robert Palmer *et.al*, *Educating out of Poverty? A Synthesis Report on Ghana, India, Kenya, Rwanda, Tanzania and South Africa* (Edinburgh: Center of African Studies, University of Edinburgh, 2007), 65-67.

³⁹ Ahmed K. Ferej, "The Use of Traditional Apprenticeships in Training For Self Employment by Vocational Training Institutions in Kenya", in *Training for self employment through Vocational*

2. Other Services

Poor farmers, small producers and petty traders often have problems in sustaining their earning due to the problems faced in their daily economic activities. They tend to have problems with product marketing especially when they produce something which is not for local consumption as they have to rely heavily on the middle men. High competitive markets also could weaken their negotiating power over the buyer, thus inhibiting them from getting reasonable prices. In this case, agencies that offered income generation programs could set up alternative marketing organizations to help them by paying a fair price to the producers as compared to the traditional intermediaries.⁴⁰

Apart from that, the poor also frequently face purchasing problems as they have to acquire the production input with the higher price from the retailers. In this aspect, a development agency could help to solve this problem through the provision of credit or organizing collective and bulk buying, so that they are entitled to commercial discount.

As for an example, in India, SASHA, a non-profit organization has been offered income generation aid for poor producers of handcrafted goods. In this case, the agency provides a whole range of marketing related support to the producers. Since its foundation, SASHA has been able to ensure a significant impact on producer groups by maintaining their competitiveness and their quality of product and in the mean time speeding up the payments to alleviate cash flow problems.⁴¹

As for the discussion of income generation from modern development point of view, we could hence sum up that the program is a micro development tool meant to empower poor and enhance their capability to work. The initiative is a microeconomic strategy which can be initiated by either government or non government body. An appropriate package as earlier discussed could successfully help the poor to release them permanently from poverty.

Training Institutions, ed. John P. Grierson and McKenzie Iain (Geneva: International Labour Office, 1996), 105.

⁴⁰ Hurley, *Income Generation*, 114; Responsible Purchasing Initiative, "Buying Matters", Report for Fairtrade Organisations, February 2006, 3.

⁴¹ <http://www.sashaworld.com/edf.htm> (accessed on Feb 5, 2009)

The approach of helping the poor to flourish has not been confined to development agencies or governments. Religious institutions also can play a similar role in improving the livelihood of the poor by providing support for development of their professional skills. Through the discussions and writings on zakat, as we shall see later, the concept of income generation by means of the fund has been illustrated and proposed as a way to distribute zakat.

3.3 A Brief Survey on the Idea of Income Generation through Zakat

This section surveys what Muslim economists and scholars have written about disbursement of zakat to the poor to enable them to generate income. The proliferation of academic discussions on zakat in the mid-twentieth century has shed light on the introduction of the initiative, later gradually implemented in some Muslim countries as part of the Islamization phenomenon.

It is difficult to determine with certainty who first introduced the idea of income generation through zakat. In the middle of the twentieth century, a few writings briefly touched on the use of zakat for that purpose. Abul A'la al-Mawdudi in his writings on zakat in 1965, for example, suggested that the fund was a necessary guarantee of help for the destitute and poor, including those who were temporarily unemployed. He considered as unemployed those who did not have the means to earn their living but were capable of standing on their own feet once they were provided with the necessary financial and material support.⁴²

Although in this account he did not offer any details as to how zakat should be given, he did briefly mention that the unemployed should be helped temporarily, with the aim of recovering independence through rehabilitation, which is similar to the objective of the income generation program. We can understand from this that “material and financial support”, as stipulated by al-Mawdudi, might refer to something akin to helping the poor through income generation.

⁴² Abul A'la Al-Mawdudi, “The principles and objectives of Islam’s economic systems” in *First Principles of Islamic Economics*, ed. Khurshid Ahmad (Leicestershire : The Islamic Foundation, 2011), 99-100.

Farishta de Zayas, in her writing in the 1960s, also mentioned the possibility of distribution to help zakat recipients into work. She suggested that the poor should be helped to acquire tools or any necessary machines that could enable them to recover, and further, that the zakat institution should play an active role as an employment agent, matching job hunters with prospective employers.⁴³

Another early writer on income generation is Yusuf al-Qardawi, a renowned Islamic scholar in the Muslim world. Through his best-known work on the subject of zakat, published for the first time in 1966, he gave considerable attention to the possibility of productive distribution, including distribution for helping the poor to generate income. Considering zakat as a solution to the problems of poverty and unemployment, he proposed that the fund also be given to the eligible recipients to empower them to generate their own income without being dependent on the fund over a long period of time.⁴⁴

On the issue of distribution of zakat to able-bodied recipients, he referred to the views of all the major schools of Islamic law, contending that each of them could be the best one to apply in the proper instance.⁴⁵ Al-Qardawi hence preferred to give the disabled and other unproductive recipients living expenses sufficient for a specific period, preferably in monthly payments to help them control their spending wisely.⁴⁶ For those with the power to sustain themselves, he proposed that zakat should be used to enable them to work in accordance with their skills and professions. He basically derived his latter proposal from the classical ideas of Shāfi'is scholars, who were of the view that the disbursement should permanently support the recipients, including the able-bodied, by giving them enough money to enable them to return to the state they occupied prior to falling into poverty.⁴⁷

⁴³ Zayas, *The Law and Institution of Zakat*, 355, 360. The first edition of the book was published in 1960.

⁴⁴ al-Qardawi, *Fiqh az-Zakah*, 350-352.

⁴⁵ al-Qardawi, *Fiqh az-Zakah*, 360.

⁴⁶ al-Qardawi, *Fiqh az-Zakah*, 360.

⁴⁷ Al-Shirāzī and al-Nawāwī are among the al-Shāfi'i's disciples who briefly elaborated of how zakat should be distributed to the able-bodied recipients. For further clarification please refer to al-Nawāwī's commentary on al-Shirāzī's work: Abū Zakariyā Muḥy al-Dīn al-Nawāwī, *Kitāb al-Majmū' Sharh al-Muhadhdhab*, v6 (Jeddah: Maktaba al-Irshād, n.d), 171; See also al-Qardawi, *Fiqh az-Zakah*, 355-356.

All the above writers are among the earlier proponents of the idea of using the zakat fund for income generation programs. Although at this stage they do not specifically employ the term “income generation”, they unmistakably imply the same intention. Looking at the suggestions advanced by Mawdudi, Zayas and Qardawi, we can indeed see some similarities with the income generation programs introduced by modern development bodies for poverty eradication, such as those mentioned in the previous section. It is however doubtful that the authors were in any way influenced by the practice, as they were talking about it before any of the programs (started only in the 1970s, as earlier indicated) were in existence. In addition, they nowhere suggested in their writings that they were referring to any modern development policies.

Perhaps it is safe to say that the scholars merely offered a simple suggestion for dealing with the problem of Muslim unemployment in their time. Furthermore, what they proposed was a basic mechanism, namely giving the zakat collection to the unemployed poor, unaccompanied by more detailed and creative ideas such as providing training or courses for the recipients. This proposal was simpler than that actually implemented by modern development bodies, which encompassed many other support activities. It is possible for many people to have similar ideas without having necessarily encountered or influenced each other.

The idea of the use of zakat to generate income was continuously developed in the 1970s. Discussion of zakat and to a certain extent of income generation burgeoned through writing in books, journals or seminar papers. The subject was mainly addressed within the newly emerging discipline of Islamic Economics.

In a book by Afzalur Rahman, a Muslim economist, published in the mid-1970s, zakat is portrayed as a religious duty which has the potential to cure economic ills in society. Hence, the state must play an important role in collecting the fund and mobilizing it so as to ameliorate the country’s economic problems.⁴⁸ In discussing the economic potential of zakat, Rahman also pointed out that disbursement is an important issue: here, he clearly stated that disbursement through cash will not solve the poverty problem entirely. He believed that such a disbursement is not effective inasmuch as it might create a class of permanent dependents with no motivation to

⁴⁸ Rahman, *Economic Doctrines of Islam*, 250

work.⁴⁹ Instead, the focus must be on allocations which provide the poor with a means of earning a living.⁵⁰ He argued that such an initiative, including the establishment of small enterprises and cottage industries and provision of necessary training in poor communities, would yield profitable occupations for recipients.⁵¹

Serious thinking and discussion of zakat in this decade was also to be found at a few international seminars. For example, the seminar on Islamic economics in 1976 in Mecca, attended by religious scholars and Muslim economists from around the world briefly featured zakat as one of its themes. At this seminar, F.R. Faridi, an academician from Aligarh University, suggested in his paper that zakat should be a fiscal (taxation) policy in an Islamic State. In this context, the fund could be used to guarantee a minimum means of livelihood to every individual in the community, while also ensuring the productive use of economic resources for the material wellbeing of the community.⁵²

The paper showed additional concern for productive distribution by suggesting that the zakat fund be used to help fund industries and firms owned by the poor. Apart from that, the poor could be given necessary training. His view was that the continuous receipts from initiatives supported by zakat money could give the recipients stable incomes and eventually free them from poverty.⁵³

Besides the seminar on Islamic economics, an International Zakat Seminar took place in America in 1979. Five zakat papers were presented in this seminar, some of which mentioned distribution for income generation. Abdool Aziz Shaik, for instance, in his paper surveyed Qur'anic texts pertaining to zakat and examined their meaning in the light of contemporary economics. Referring to the verses concerning the poor, he argued, like the above-mentioned writers, that the poor who were entitled to the zakat fund according to the verse could be inclusively defined as those

⁴⁹ Rahman, *Economic Doctrines of Islam*, 251.

⁵⁰ Rahman, *Economic Doctrines of Islam*, 251-252.

⁵¹ Rahman, *Economic Doctrines of Islam*, 260.

⁵² F. R. Faridi, "Zakat and Fiscal Policy", in *Studies in Islamic Economics*, ed. Ahmad, Khurshid (Leicester: The Islamic Foundation, 1980), 121.

⁵³ Faridi, "Zakat and Fiscal Policy", 127-128.

who could not earn a livelihood. In that case, zakat should act as national insurance by helping them during periods of unemployment.⁵⁴

Another presenter in this seminar, Muhammad Mahmood Awan, an academician in America and a Pakistani ex-government official, portrayed zakat as a viable instrument of economic development. He argued that zakat could break the poverty cycle by transferring money from the unproductive to the productive sector. In this context, he explained that the fund would encourage more productive ventures to be set up, as any idle wealth in the hands of the rich would be taxed away.⁵⁵ Altogether, the presenter maintained that the objective of zakat, among others, was to enhance productivity.

Up to this point, we can see that the subject of the use of zakat for income generation, discussion of which began in the 1960s, was repeatedly touched on by various writers in later decades. Perhaps the obvious pattern to be discerned in this period was one of purely theoretical discussion of an idea that was yet to be implemented. At this time, the discussion of zakat was introduced from a development standpoint, with the fund seen as a mechanism for eradicating poverty and solving the unemployment problem.

Although none of the above writers suggested that zakat should replicate modern income generation initiatives, or regarded any income generating organization as a model, at this stage the writers had started to use some terms associated with development, perhaps showing that Muslims were beginning to see the potential of the religious fund for modern economic development. Considering the individuals presenting those ideas, who were undeniably well versed in modern economics, it is fair to say that they were at least aware of the emergence of income generation programs as a new mechanism of poverty eradication. In fact, some of them came from the countries where income generation had been kick-started. That is perhaps why they went on to propose more ambitious projects, such as building

⁵⁴ Abdool Aziz Shaik, "Concept of Zakah: Survey of Texts and Definitions" in *Some Aspects of The Economics of Zakah*, ed. M. Raqibuz Zaman. (Plainfield: The Association of Muslim Social Scientists, 1980), 9.

⁵⁵ Muhammad Mahmood Awan, "Economic Policy for Development, A Treatise on Zakah", in *Some Aspects of The Economics of Zakah*, ed. M. Raqibuz Zaman. (Plainfield: The Association of Muslim Social Scientists, 1980), 203.

factories and providing other support initiatives, ideas stemming partly from their academic and personal experiences.

Through the 1980s and 1990s, as in previous decades, writings on zakat and income generation continued to flourish. They differed from those of previous decades, since the 1980s saw brief discussions of the attempt to implement the initiative. Among theoretical discussions, Mohamad Nejatullah Siddiqi, at the International Seminar in Islamic Economics in 1983, presented the concept of a guaranteed minimum standard of living in an Islamic state. Siddiqi expressed the opinion that an Islamic state should use zakat to fulfil this duty. He further suggested that the fund might be disbursed to help unemployed people. On top of that, zakat could finance vocational training and the creation of skills for the poor.⁵⁶

Another presenter, Zubair Hasan, described the concept of equity and economic distribution in Islam. In this context, he considered zakat as a means of wealth distribution in society and, in an argument similar to Siddiqi's, suggested that zakat could be distributed as an income-creating asset and training resource.⁵⁷

Besides theoretical discussions like these, in the 1980s there were already signs that distribution of zakat for income generation was beginning to be put into practice. At a seminar on zakat in 1985 in Pakistan, examples of implementation of zakat administration in two countries, Kuwait and Pakistan, were presented. Fuad Abdullah al-Omar elucidated the mechanism of collection and disbursement in Kuwait. In that country, zakat was considered a voluntary contribution, with its administration handled by a semi-governmental organization, namely, Kuwait Zakat House. Omar reported in his paper that through its zakat disbursal mechanism for helping the poor, Kuwait Zakat House had assisted in several ways such as giving money as a lump sum aid and offering income generation schemes (known as rehabilitation) to the eligible poor.⁵⁸

⁵⁶ Muhammad Nejatullah Siddiqi, "The Guarantee of a Minimum Level of Living in an Islamic State" in *Distributive Justice and Need Fulfillment in an Islamic Economy*, ed. Munawar Iqbal (Leicester: The Islamic Foundation, 1986), 270-274;

⁵⁷ Zubair Hassan, "Distributional Equity in Islam", in *Distributive Justice and Need Fulfillment in an Islamic Economy*, ed. Munawar Iqbal (Leicester: The Islamic Foundation, 1986), 54.

⁵⁸ Fuad A. al-Omar, "Management of Zakah through Semi- Government Institutions" in *Management of Zakah in Modern Muslim Society*, ed. by I.A Imtiaz et al. (Jeddah: IDB, 1989), 142-143.

In another paper, I.A. Imtiaz described the Pakistan government's experience of zakat administration. By contrast with the Kuwaiti system, zakat payment in Pakistan is compulsory, the fund being directly deducted from personal bank accounts by the government. Regarding disbursement, some of the collected amount was used to help the poor to become productive.⁵⁹

In these two cases, it appeared that income generation had been implemented to a certain degree as part of a strategy of zakat disbursement. In the case of Pakistan, however, Imtiaz found that the disbursement for income generation should be increased, as the situation at the time indicated that much of the disbursement went on direct contributions.⁶⁰ As for Kuwait, there was no indication by Omar that the zakat body should do as Imtiaz suggested. But this discrepancy was unsurprising, as Kuwait was a rich country with no acute problem of poverty and, hence, no pressing need for income generation disbursement there. In fact, some of the fund collected in the country was donated outside it, as mentioned briefly by Omar.⁶¹

Of the two cases presented in the seminar, Pakistan seemed to have made a more serious political commitment to disbursement for income generation. The then Chairman of Senate of Pakistan himself, Ghulam Ishaq Khan, in the seminar's concluding address, announced a strong commitment to income generation projects through the zakat fund. He stated clearly that the income generation initiative, known as rehabilitation programs, would be the first priority, rather than subsistence allowances. The National Zakah Foundation was then set up to enable the program to be partly financed within the government's budget.⁶² Looking back at the discussion in the previous chapter, we can see that such a serious attempt by the Pakistan government to organize zakat administration in the country is a good example of Islamization from above. The Pakistan case hence, will be discussed further in a later chapter.

⁵⁹ I. A Imtiaz, "Organization of Zakah: The Pakistan Model and Experience", in *Management of Zakah in Modern Muslim Society*, ed. by I.A Imtiaz et al. (Jeddah: IDB, 1989), 171.

⁶⁰ Imtiaz, "Organization of Zakah", 171-172.

⁶¹ al-Omar, "Management of Zakah, 145-149.

⁶² Gulam Ishaq Khan, "Concluding Remarks", in *Management of Zakah in Modern Muslim Society*, ed. by I.A Imtiaz et al. (Jeddah: IDB, 1989), 204-205.

Indonesia is another country that initiated a program of income generation through zakat, although there was never any centralized zakat body in that country. Taufik Abdullah, a writer on Indonesia, in an article published in 1991, briefly explained the zakat system in Indonesia, mentioning that disbursal of the fund for income generation had been practiced since the 1980s.

According to him, the move resulted from the rising tide of Islamization in Indonesia, in the course of which local scholars, together with local technocrats, promoted the scheme by independently setting up zakat bodies. The initiative was part of the process of improving the zakat collection and distribution system in the country, where the zakat institution competes with others, making it necessary to gain the confidence and trust of the Indonesian masses in order to encourage them to pay their dues through official channels.⁶³

Indeed, Indonesia is an interesting case to explore further in regard to Islamization from society, by contrast with the position in Pakistan. Practical developments within the borders of this country will also be dealt with, alongside the Pakistan case, in the next chapter.

The discussion of income generation through zakat continues to evolve in the twenty-first century, with some writers suggesting more ambitious advances and integrated mechanisms, although there is no clean break from the previous pattern. Habib Ahmed of the Islamic Development Bank Group is among recent economists who have conducted research into zakat and *waqf* (inalienable endowment). In early 2000 he observed the role of the zakat and *waqf* institutions in poverty eradication in a few countries. He generally favoured zakat distribution for the purpose of enhancing recipients' income-generating abilities, and observed that such a distribution has been implemented to some extent in the countries he has researched, namely Pakistan, Malaysia and South Africa. Seeing that the management of zakat is still not fully systematic, he called for further examination of the mechanism, which he believed to be more beneficial to the recipients than the traditional disbursement.⁶⁴

⁶³ Abdullah, "Zakat Collection and Distribution in Indonesia", 50-84.

⁶⁴ Ahmed, *Role of Zakah and Awqaf*, 111-113.

In addition to performing as an independent mechanism, zakat could be integrated with other economic tools to help recipients generate income. As the income generation programs need more direct intervention from experts and professionals, zakat authorities should work together with other institutions such as the Islamic Micro Financial Institutions (IMFI) which have expertise in organizing such programs. Ahmed and Obaidullah, for example, proposed that zakat should complement the Islamic Micro Financial Institutions by providing the beneficiaries with zakat to meet their basic needs. In that case, zakat agencies would provide food, clothing and other daily necessities for the program participants, while the IMFI would only supply the capital needed for generating income. Since both institutions have similar targets, such collaboration would reduce the need to divert to consumptive use funds given by the IMFI for productive purposes, a complication which would lower the programs' success rate.⁶⁵

Looking at the pattern of discussion by late twentieth century and early twenty-first century writers, we see that they continued to propose usage of the zakat fund for a number of initiatives such as training and other mechanisms, over and above purely financial help. In using terms such as "income creating assets", "empowerment" and "microfinance", which show the influence of contemporary economics, the proposers could be understood as referring to existing modern income generation programs.

And in some cases they no longer hesitated to recommend that zakat work hand in hand with modern development initiatives. Ahmad and Ubaidullah, for example, in promoting income generation programs based on Islamic principles (that is, free from usury and other *harām* elements), proposed zakat as a supporting fund for such initiatives. Indeed, they regarded zakat and the development scheme as having similar objectives. They also believed that the use of zakat for micro programs, especially in the form of income generation, was more appropriate considering that the zakat collection had yet to reach the volume at which it could

⁶⁵ Habib Ahmed, "Financing Microenterprises: An Analytical Study of Islamic Microfinance Institutions" *Islamic Economic Studies*, 2 (4) (2002): 38; Mohammed Obaidullah, *Islamic Microfinance Development: Challenges and Initiatives* (Jeddah: IDB, 2008), 46.

benefit the economy at a macro level, or support large-scale initiatives (e.g. major industrialization projects or modernization of agriculture).

It is clear that their ideas have now been implemented in a number of countries. This shows that the earlier, purely theoretical idea of finding a better way to utilize zakat has, since the 1980s, been put into practice in reality. On the basis of the above-mentioned writings on zakat, we can outline a more meaningful concept and mechanism of income generation, as follows.

3.4 Concept and Mechanism of Income Generation through Zakat

The discussion addresses three main areas, namely, financing, training, and other services. This to a certain extent resembles the concept of the income generation program as explained in the first part of the chapter, from which we can easily appreciate that zakat has been assigned a stronger role in modern economic development.

3.4.1 Zakat for financing income generation

Many writers, as previously observed, have suggested using zakat as a financial resource for income generation. It could be used to buy tools, fertilizer and other necessary items for the poor. On a larger scale, zakat could also finance the creation of cottage industries.⁶⁶

In order to counteract the tendency to misspend the fund, especially for consumption purposes, the beneficiaries could be paid in kind, for instance with tools or equipment appropriate to their skills and professions, rather than in monetary form. This has been suggested because of a tendency on the part of recipients to spend zakat money on inappropriate goods due to either ignorance or bad habits.⁶⁷ Elaborating on the situation, Mannan for example suggests that the provision of education for a poor family is preferable to a cash endowment, since the family would most probably spend the money on other things, while the educational

⁶⁶ al-Mawdudi, "The principles, 99-100; Zayas, *The Law and Institution of Zakat*, 355; al-Qardawi, *Fiqh az-Zakah*, 350-352; Rahman, *Economic Doctrines of Islam*, 260.

⁶⁷ Ziauddin Ahmad, "Comments on Mannan", in *Management of Zakah in Modern Muslim Society*, ed. by I.A Imtiaz *et al.* (Jeddah: IDB, 1989), 52.

spending would remain at a minimum.⁶⁸ However, the decision regarding disbursal is left to the discretion of zakat officials. According to al-Qardawi, they are most likely to know the real needs of individual recipients after taking into consideration the interests of the Muslim community as a whole.⁶⁹

Another important aspect of the implementation of income generation programs through zakat is the method of issuing the fund, whether in the form of a grant or alternately in the form of a loan. As for grant disbursal, there is no objection from any scholar in relation to zakat provision, as it is akin to the normal distribution whereby recipients are under no obligation to repay the money.

Although loan provision from zakat has been offered, modern scholars are still not in full agreement. Al-Qardawi in this case opines that utilizing zakat as a loan is in line with the broader goal of zakat. Thus, persons who need a loan can be given zakat under the heading of 'those in debt'. This would not only relieve them of the debt but also contribute in a practical way to the elimination of interest, which is one of the objectives of Islamic Economics.⁷⁰

By contrast with al-Qardawi, Zayas rejects the use of zakat for loans as, according to her, there is no support for it whatsoever in any of the Quranic principles or in any of the prophet's rulings. She argues that such an initiative is a very serious impediment to the rehabilitation of needy Muslims. It also serves to defeat the noble and supremely important aim and purpose of the institution of zakat.⁷¹

It is however necessary to mention that the commentary of Zayas and al-Qardawi about the permissibility of using zakat in the form of loans is not found in the same section as the suggestion that it be used to help the unemployed poor (zakat for income generation). The comment is made within the discussion on distribution of the fund for debtors, as they are also among the beneficiaries. Although it is evident, therefore, that such an opinion could not be thought of as giving a green

⁶⁸ M.A Mannan, "Effect of Zakah Assessment and Collection on the Distribution of Income in Contemporary Muslim Countries", in *Management of Zakah in Modern Muslim Society*, ed. by I.A Imtiaz et al. (Jeddah: IDB, 1989), 41.

⁶⁹ al-Qardawi, , *Fiqh az-Zakat*, 368.

⁷⁰ al-Qardawi, *Fiqh az-Zakat*, 405.

⁷¹ Zayas, *The Law and Institution of Zakat*, 357.

light to distribution for income generation through loans, it is still relevant to our discussion in this area. The reason is that, as will be shown in the coming chapters, such views were later used to support modern *fatwas* and religious opinions on the permissibility of utilizing zakat for loans (including those provided within income generation programs).

3.4.2 Zakat for training and advisory services

In programs of income generation through zakat, training and skill development are important for strengthening participants' ability, competence and potential for success. The zakat fund, in this case, as suggested by Siddiqi and Hassan, could be used to cover the expense of the training and courses provided.⁷² As a mechanism for empowerment, skill improvement programs should be introduced before start-up capital is given. Obaidullah, however, believes that these measures should be taken only after basic consumption needs have been met.⁷³

Through having adequate skills, the zakat recipients could use the distributed fund effectively and hence minimize the tendency of the poor to use it for the other purposes which Ahmed considered a default risk.⁷⁴ According to Ahmed, the default risk increases when a person is given funds with which to exercise a skill that has not been acquired. For example, prospective beneficiaries may apply for funds for a cottage industry like basket weaving, but if they do not know how to weave, the probability of the fund being misused increases.⁷⁵

The training provided is not limited to technical and conventional skill training. The additional furtherance of religious awareness could encourage them to use their funds effectively. Ahmed in this regard indicates that such a course has had a positive impact on the performance of recipients. In his study of an institution which provides Islamic micro financing in Bangladesh, he found that the Islamic concept of brotherhood along with the religious duty of debt repayment, as imparted

⁷² Siddiqi, "The Guarantee of a Minimum Level of Living", 274; Hassan, "Distributional Equity in Islam", 54.

⁷³ Mohammed Obaidullah, *Introduction to Islamic Microfinance* (New Delhi: International Institute of Islamic Business and Finance, 2008), 29.

⁷⁴ Ahmed, "Financing Microenterprises", 51.

⁷⁵ Ahmed, "Financing Microenterprises", 51.

through the educational content of the Social Development Program, could help to clear instalments and strengthen group relations.⁷⁶

Since training requires a range of facilities from buildings to specific equipment, zakat funding for such preparatory needs will also be necessary. In regard to this situation, Mannan commented in his paper that the zakat fund must always be spent in such a way that only eligible recipients receive the benefit. He described as the “free rider effect” the circumstances in which non-recipients might also inappropriately benefit from the fund, and suggested that non-recipients be charged accordingly and the revenue be returned to the designated recipients.⁷⁷ Another way to avoid such misspending is to require that the expenditure come from other sources, that is, either from government or from charitable donations. This policy is similar to that of the Pakistan government, which used the state budget to set up training institutions. This will be observed later in the Pakistan case.

3.4.3 Other services

Besides the initiatives mentioned, zakat institutions could offer services that help people to find employment. Zayas, for example, suggested that zakat institutions could act as intermediaries, matching jobseekers with potential employers. For this purpose, she argued, each zakat centre should remain in close contact with all prospective employers within its jurisdiction, with the main zakat centre acting as an agent for coordinating employment supply and demand throughout the country.⁷⁸ This service would be provided as an additional support, to enhance the effectiveness of the zakat mechanism for poverty eradication; Zayas preferred that such a service be rendered free of charge.⁷⁹

Support services offered by zakat institutions could indeed take many forms according to the creativity and capabilities of individual agencies. As we shall see in later chapters, from practical examples in a number of countries, there are various other mechanisms which could be associated with this type of service, such as support for recipients in relation to advertising, marketing, accounting and

⁷⁶ Ahmed, “Financing Microenterprises”, 57.

⁷⁷ Mannan, “Effect of Zakah Assessment”, 44.

⁷⁸ Zayas, *The Law and Institution of Zakat*, 359.

⁷⁹ Zayas, *The Law and Institution of Zakat*, 359.

management. These measures, however, would depend on the capacities of specific zakat organizations and related government authorities.

All the above functions and types of income generation could be fully implemented by zakat institutions themselves or in conjunction with other professional institutions. In the case of implementation carried out wholly by the zakat institution, all finance, training and associated services would be paid for with zakat wealth.

There have also been suggestions that zakat might incorporate other professional bodies, such as the Islamic Micro Financial Institutions (IMFI), which have expertise in organizing this type of program. Ahmed and Obaidullah, for example, proposed that zakat should complement the work of the Islamic Micro Financial Institutions by providing zakat to the beneficiaries to meet their basic needs. In this case, zakat agencies would supply food, clothing and any other daily necessities for the program's participants, while the IMFI would only supply the capital needed to generate income. Since both institutions have similar aims, the proposed collaboration would reserve IMFI funds for productive purposes, avoiding endowment for consumption, which would limit the success of the programs.⁸⁰

It can be concluded from the above discussion that the distribution of zakat to generate income is a new, complex mechanism involving a number of areas and encompassing both material and non-material aid. Looking back at the discussion of income generation from the modern development perspective, which defines the program as an economic intervention, it can perhaps be inferred that income generation through zakat is also a deliberate intervention by the zakat administration to help its beneficiaries improve their standard of living. Hence, this research suggests that an income generation program through zakat means one in which zakat proceeds are distributed in a manner that assists eligible beneficiaries to improve their living conditions by developing their skills. Through this program, zakat funds can finance the economic activities of eligible recipients on the basis of their skills and capabilities. Zakat administration, for its part, should play an important role in monitoring the activities of the involved recipients, beyond providing them with

⁸⁰ Ahmed, "Financing Microenterprises", 38; Mohammed Obaidullah, *Islamic Microfinance Development: Challenges and Initiatives* (Jeddah: IDB, 2008), 46.

necessary skills, so that they can make the most of the zakat funds channelled to them and avoid misspending.

3.5 Conclusion

Income generation is a modern development strategy through which the poor can be helped to flourish and finally to escape from poverty by their own efforts. Within the modern micro development approach, income generation is a poverty eradication initiative by state or non-governmental organizations to provide monetary and non-monetary aid for the targeted poor so that they can be productive and employable. The programs have been initiated by several organizations in various developing countries since around the 1970s to complement larger, governmental macro development strategies. The reason is that the latter approach, although to a certain extent bringing about higher incomes and economic growth, still left a large number of poor people neglected and excluded from the benefits of development.

In the same period, the strategy implemented in modern income generation programs has been gradually embraced by an Islamic institution, namely zakat. Theoretical discussion of the use of zakat for income generation began shortly after the middle of the twentieth century. In this context, the zakat institution was envisioned as providing the poor with financial and non-financial aid, ranging from grants of money for tools and necessary equipment, to the provision of training and advisory support.

As we trace back the idea of zakat for income generation to the discussions reviewed above, we can see signs that it was to a degree influenced by the modern income generation programs which already existed. Although the influence was not so clear earlier on, later authors, especially those who emerged in the 21st century, suggested that zakat should adopt the practice of modern income generation bodies or work cooperatively with them. This development indicates that Muslim writers have directly or otherwise looked at the modern initiative as a potential model to follow.

From a survey of the literature pertaining to the association of zakat with productive distribution, the chapter also clarifies what is meant by income generation

through zakat, which is a key subject of this thesis. Through this mechanism, the zakat institution does not merely distribute the fund for consumption, but empowers the recipients through other forms of support, including training and advisory services.

It is however necessary to say here that, although the zakat can be disbursed in such a way as to help recipients to generate income, that does not mean that the fund, as a religious fund, can be manipulated in the same way as a modern economic tool. Because of this qualification, writers are still at variance over some aspects of income generation initiatives, such as granting loans from the fund and scrutiny of recipients' individual latitude in spending the money. Hence, new legal explanations (*ijtihad*) are needed to address these aspects.

With such a mechanism in place, the role of zakat has clearly been extended beyond its original one as a religious obligation, to become a more significant element in economic development. In this respect, some elements of the modern approach have been gradually and carefully accommodated. Indeed, this process represents one of the impacts of Islamization upon zakat, through which Muslims try to enhance the institution so that it will benefit them not only spiritually but also economically.

CHAPTER 4

THE ISLAMIZATION AND IMPLEMENTATION OF INCOME GENERATION THROUGH ZAKAT IN PAKISTAN AND INDONESIA: A BRIEF OBSERVATION

4.1 Introduction

Zakat for income generation, as briefly mentioned, has been put into practice in some Muslim countries such as Pakistan, Indonesia and Kuwait. The implementation of the program in each country depends on the Islamization phenomenon as well as the individual state and societal surroundings. As the Islamization process could be initiated from above or from below; this chapter will accordingly demonstrate the way in which these two implementation approaches happen.

This chapter will present two examples of the implementation of income generation programs through zakat, featuring cases from Pakistan and Indonesia in which two models of Islamization will be clarified: Islamization from the state and Islamization from society. The chapter will therefore try to partly fulfil the second objective of this thesis which is showing the implementation perspective of income generation through zakat in Muslim countries. It will also elaborate further on the Islamization phenomenon in each country.

The first part of the chapter elaborates on the practice of zakat in Pakistan after the Islamization project was introduced by the government of the end of 1970s. The Pakistan model of zakat, as we shall see shortly, clearly shows the top-down direction of execution. Pakistan merits examination, since its zakat implementation in general has been the most widely discussed in many seminars and writings and has been exemplary of the state's Islamization agenda.¹ Here the zakat program has been mainly inspired from above, with much support from higher-level officials. The government has formed the centralized system of zakat all over the country and made the practice obligatory for every Muslim citizen. The hasty implementation of the

¹ Salim, *The Shift in Zakat Practice*, 14.

system however, was not always welcomed by all members of society. The collection was therefore stagnant for many years.

Apart from administrative discussion, this chapter will also discuss the legal aspect of several issues concerning income generation. This is consistent with the Islamization concept earlier discussed which to a certain extent related to the reinterpretation of classical zakat rulings. In this regard, there is a limited process of *ijtihād* in Pakistan as classical Ḥanafī opinion is still widely held. Legal issues are solved by the extra support of government help.

The second part of this chapter features an Indonesian case which also started its collective zakat system at the end of the 1960s. By contrast with Pakistan, the Indonesian case presents the opposite situation in which, despite little interest on the part of government, society has largely inspired the improvement of the zakat institution in the country. In many cases, the collection and distribution have been initiated from below, among members of Muslim society, to benefit themselves. Little or no help from the government has forced society to experiment and create initiatives that proffer zakat from a personal matter to a society development tool.

Apart from this different approach in the zakat administration in Indonesia as compared to Pakistan, there is also difference in legal interpretation. Modern scholarship in Indonesia has, to a greater extent, employed *ijtihād* in which they encounter no problems using zakat for income generation.

Through the discussion in the chapter, we will see different ways of implementing zakat management in general and income generation in particular. The two cases will give us a basic exemplary implementation, showing the pattern of Islamization of government and of society. It is hoped that these two cases will shed light on the practical aspects before we go on to consider the Malaysian one.

4.2 Pakistan - Islamization of State

Since the establishment of Pakistan in 1947, Islam has played a significant role in government and in people's lives. While popularly known as an Islamic republic, Pakistan, following its partition from India, appeared to follow a western

model. In the 1970s the phenomenon of Islamization was at its peak, embodied in the state's bold commitment to "*nizam-al islami*" – which was widely known as the basis of a true Islamic state. As we shall make clear, to win the hearts of Muslims in Pakistan, the state undertook to Islamize many areas within its power, during which process zakat became part of its economic Islamization policy. Such a major role assigned to the religious duty was significantly supplemented by institutional aid and religious interpretations that suited the popular national *madhhab*. This move was important for gaining legitimacy in the eyes of the people.

As we look at the history of Pakistan, we see that it was not meant to be a religious state at its establishment. The founding father, Ali Jinnah, was in fact a nationalist leader who used Islam as a rallying cry for separation from "*Hindu*" India. The demand for an Islamic state came from religious followers whom he persuaded to support him.

The founding father himself was not really committed to Islam and clearly wanted the newly established state to be free from any religious influence.² In a constituent forum of the new state of Pakistan, Jinnah for example stated that "you may belong to any religion or caste or creed – that has nothing to do with the business of the state ... we are starting with this fundamental principle, that we are all citizens of one state".³

In the 1950s, the problems faced by the new state, such as the demise of Jinnah and the settlement problems of Muslim refugees from India, overshadowed religious dissimilarities as Pakistan searched for a national identity. The national constitution was only successfully drafted in 1959. It was apparently based on western parliamentary democracy, with some Islamic elements, including the requirement for a Muslim head of state, the title of Islamic Republic of Pakistan, and the repugnancy clause by which no law contrary to al-Quran and sunnah could be enacted. Furthermore, fundamental concepts such as democracy, popular sovereignty and the equality of all citizens on the basis of Islamic principles, were left

² Hamzah Alavi, "Ethnicity, Muslim Society and Pakistan Ideology" in *Islamic Reassertion in Pakistan*, ed. Anita M. Weiss (New York: Syracuse University Press, 1986), 22.

³ Alavi, "Ethnicity, Muslim Society and Pakistan Ideology", 42.

undiscussed.⁴ After all, the constitution was too brief to delineate how the Islamic state could be put into operation.

The weak government of the 1950s, resulting from the power of the Governor General (civil service) over the legislature, gave Muhammad Ayub Khan (with the Governor General's cooperation) the chance to eventually lead a military *coup d'état* in 1958.⁵ Khan, a western-oriented modernist, clearly tried to distance Islam from the state in order to promote modern development. He stressed the need to "liberate the spirit of religion from the cobwebs of superstition and stagnation which surround it and move forward under the forces of modern science and knowledge".⁶ He also tried to delete the word "Islamic" from the official name of the republic, but failed because of Muslims' resentment. Although he introduced the Advisory Council of Ideology and Islamic Research Institute (as mandated by the 1956 constitution) to advise the government on ways of encouraging Muslims to live in conformity with Islam, and to indicate whether proposed legislation was repugnant to Islam, it seemed that Khan's government did not take seriously the need to adhere strictly to the advice.⁷

Democratic power returned to the people in the early 1970s only after Zulfikar Ali Bhutto came to office through a democratic election. Bhutto belonged to the Pakistan People's Party which hailed socialism and promoted equality among people.⁸ In the early days of his regime, Bhutto promised democratic government but as time passed he tended to centralize power under himself.⁹ Bhutto was then strongly rejected by the masses, with a coalition of opposition parties, as well as religious groups, accusing the president of abusing his power. To suppress opposition parties, he used harsh methods and finally declared martial law. The situation was viewed by Muhammad Zia ul Haq, then head of the military, as an opportunity to

⁴ Esposito, *Islam and Politics*, 112-113.

⁵ Tahir Kamran, *Democracy and Governance in Pakistan* (Lahore: South Asia partnership-Pakistan, 2008), 36-37.

⁶ Esposito, *Islam and Politics*, 115

⁷ Esposito, *Islam and Politics*, 116.

⁸ Kamran, *Democracy and Governance*, 85; Hassan, "Islamization: An Analysis", 263.

⁹ Kaushik, *Politics in Pakistan*, 5.

topple the Bhutto government, which he accomplished through another *coup d'état* in 1977, seizing power and ruling until his death in 1988.¹⁰

From the discussion it is evident that Pakistan since its establishment has followed the western governance model. The law of the nation was mainly derived from British civil and colonial Mohammedan law. Economically, the country still relied on interest-based banks and western development policies such as land reform and the green revolution. Its leaders also to a certain extent tried to distance Islam from state affairs, as we have seen.

The Islamization of the state became an important feature of Pakistan from the start of Zia ul Haq's military rule, to an extent never apparent under previous leaders. Zia was popularly associated with his ambition to establish a "true Islamic society" in Pakistan.¹¹ It is difficult either to validate or to dismiss this statement, and it is not our intention to reach a conclusion regarding it. What is important to us is that, during this era, the Islamization program encompassed many economic, social and political features of the Pakistan government. Legally, *sharī'a* laws and courts were significantly broadened and strengthened, with the introduction of laws affecting fasting, prayers and penal policies. New types of punishment derived from the Quran and the Hadith, such as flogging and amputation, were brought in. Also during this time, zakat was assigned a substantial role as part of the economic Islamization agenda, along with the introduction of interest-free banking.¹² Hence, within this particular context, the implementation of the fund's administration as well as the income generation program will be delineated.

4.2.1 Zakat administration and its distribution for income generation

Zakat during the military rule of Zia ul Haq has been established as an official state social welfare institution and an element of fiscal policy. Directly after taking presidential power, Haq asked the Council of Islamic Ideology, to explore a zakat system as part of a series of potential legal changes based on Islamic law; he then appointed a task force to develop a plan for implementing a national zakat

¹⁰ Burki, "Pakistan under Zia", 1087.

¹¹ Hassan, "Islamization: An Analysis", 264.

¹² Esposito, "Islamization", 210.; Esposito, *Islam and Politics*, 168-169.

system.¹³ As a result, the collection and distribution of the fund has been undertaken by the government since the early 1980s, as underlined by state law in the Zakat and Ushr Ordinance of 1980.

Under the ordinance, the federal government is responsible for deducting zakat on certain categories of assets. Eleven types of wealth are listed, from which the government mandatorily subtracts 2.5 percent on the 1st of Ramadan every year, the sum then being credited to the Central Zakat Fund maintained by the State Bank of Pakistan.¹⁴ The taxable wealth includes, among other types, savings bank accounts, government securities, life insurance policies and provident funds. These are the kinds of wealth which are considered obvious to the eyes of government and easily accessible, and which it is thus government's responsibility to administer.¹⁵

Zakat on agricultural produce (known as '*Ushr*') is also collected by the government on a compulsory basis and charged at a rate of five percent.¹⁶ In contrast to zakat, which came into effect as early as 1981, the collection of '*ushr*' could only be realized in 1983 due to management problems.¹⁷

The zakat administration is composed of one Central Zakat Council (CZC) at Federal level, one Provincial Zakat Council (PZC) in each province, a District Zakat Committee (DZC) in each district, a *tehsil* (sub district) Zakat Committee in each *tehsil* and a Local Zakat Committee (LZC) in each locality (for each block of 3000 to 5000 people in urban areas and in each village (*deh*) in rural areas).¹⁸ As far as the distribution of power is concerned, the five-tier administration of zakat shows the degree of centralization whereby the CZC provides policies and guidelines for supervising all zakat matters. The lower-level administration (DZC and LZC) merely

¹³ Grace Clark, "Pakistan's Zakat and Ushr System from 1979 to 1999", in *Pakistan 2000*, ed. Charles H. Kennedy and Craig Baxter (Oxford: Lexington Books, 2000), 54.

¹⁴ Khalid Nazir, "Zakat and Ushr System in Pakistan", *Islamic Studies* (35)(3) (1996): 335; Ministry of Religious Affairs, Zakat and Ushr, Government of Pakistan, Zakat and Ushr Ordinance (No. xv111 of 1980).

¹⁵ Ministry of Religious Affairs, Zakat and Ushr, Government of Pakistan, "Zakat and Ushr Ordinance" (No. xv111 of 1980), Schedule 2.

¹⁶ Perves Ahmad Butt, "Case Study: Pakistan" in *Institutional Framework of Zakah: Dimensions and Implications*, ed. Ahmed A.F el-Ashker and Muhammad Sirajul Haq (Jeddah: IDB, 1995), 379-384.

¹⁷ Nazir, "Zakat and Ushr", 334, 336.

¹⁸ Clark, "Pakistan's Zakat and Ushr", 144; Nazir, "Zakat and Ushr", 334-335; Gail Richardson, "Islamic Law and Zakat: Waqf Resources in Pakistan", in *Islam and Social Policy*, ed. Stephen P. Heyneman (USA: Vanderbilt University Press, 2004), 160-161.

implements the prescribed policy, including the choice of rightful recipients and presentation of the money to them.¹⁹

The council is chaired by a judge of the Supreme Court of Pakistan, and the remaining members include three religious leaders (nominated by the Council of Islamic Ideology) as well as five other selected persons with at least one from each province. In addition, the federal secretaries of the Finance and Religious Affairs Division, the administrator-general of zakat, and the four provincial zakat chief administrators are ex-officio members.²⁰

The Provincial Zakat Council (PZC) is comprised of 12 members, with a sitting or retired judge of the High Court acting as chairperson. The remaining members consist of seven public persons, plus four ex-officio members, drawn from among provincial government officials and chief zakat administrators. The district, *tehsil* and local zakat committees consist of members who work on a voluntary basis, with each council consisting of eight or nine persons.²¹ The Local Zakat Committees (LZCs) perform most of the operational work of the zakat system. Their primary function is to determine the zakat beneficiaries, disburse the fund and keep records of disbursement and meetings. There is, however, no financial return, as district and local members are volunteers.²²

Looking at the administrative composition, it is clear that the higher levels have been manned by high-ranking government officials at national or provincial level. As the main body for establishing zakat policies, such a composition could be seen as illustrating the closeness of the institution to government machinery, enabling it to function according to the government's agenda. Incorporating government employees, however, has its own problems, since the selected officials will normally be overburdened because of their existing workload. On the other hand, it is a shameful fact that, despite the crucial role of lower-level district and local committees, many of their members, besides working for free, lack the

¹⁹ Clark, "Pakistan's Zakat and Ushr", 143.

²⁰ Richardson, "Islamic Law and Zakat", 160.

²¹ Clark, "Pakistan's Zakat and Ushr", 147.

²² Clark, "Pakistan's Zakat and Ushr", 144.

necessary management skills and are illiterate.²³ This leads to problems of fund abuse and bribery.²⁴

As regards the collection mechanism, the zakat council seems to have simply followed the easiest path of deducting from individual accounts so as to comply with governmental aspirations, without first considering the feelings of general Muslim society and trying to persuade people to pay voluntarily. In view of the fact that the practice of zakat is an obligation that has been so neglected in some parts of Pakistan that only 5% of Muslims performed it,²⁵ the government should perhaps have instituted a publicity campaign before making it compulsory. This was, however, not the case, the decision having been the sole prerogative of the state, without society being well informed. Such a motive was clearly proven when the implementation in 1980 took place without warning. On June 20, the president promulgated the Zakat and Ushr Ordinance and on the very same evening, the announcement was made that the next day banks would be closed for the deduction.²⁶

As a result, the government has been confronted by strong resistance from society. Shi'a followers, for example, completely rejected the implementation of compulsory collection on the grounds that they are not obligated to pay zakat on capital and trading money. On top of that, they do not recognize the Pakistani government's right to collect on behalf of their community. The government in this case finally allowed them an exemption for not having similar grounds in Islamic law.²⁷ Unlike the Shi'i sect's followers, the Sunnis on the other hand simply evade the payment annually by withdrawing their money from their bank accounts prior to *Ramaḍān*.²⁸

Due to the administrative problems and society's lack of confidence, the collection of zakat showed no consistent increment. The collection of the fund was

²³ Clark, "Pakistan's Zakat and Ushr", 144.

²⁴ Clark, "Pakistan's Zakat and Ushr", 147; Esposito, "Islamization", 211; G. M. Arif, "Targeting Efficiency of Poverty Reduction Programs in Pakistan", Pakistan Resident Mission Working Paper Series, No.4, Asian Development Bank, Islamabad, 2006, 37-38; Nazir, "Zakat and Ushr", 337.

²⁵ Clark, "Pakistan's Zakat and Ushr", 141.

²⁶ Esposito, "Islamization", 210.

²⁷ Esposito, "Islamization", 211; Hassan, "Islamization: An Analysis", 279; Clark, "Pakistan's Zakat and Ushr", 141.

²⁸ Grace Clark, "Pakistan's Zakat System: A Policy Model for Developing Countries as a Means of Redistributing Income to the Elderly Poor" in *Issues in Global Aging*, ed. Frederick L. Ahearn Jr. (New York: The Haworth Press, 2001), 63.

reported to yield about Rs 844.25 million in 1981, slightly increasing since then by approximately 12% per year until the mid 1990s.²⁹ The trend of zakat collection, however, has been stagnant since then, at approximately Rs 4 billion (approximately USD 45 million).³⁰ For the *'ushr*, the annual collection hardly even reached Rs 250 million (1981-1995 financial years).³¹

Regarding the distribution mechanism, this process also starts from the centre, where the bulk of income credited to the Central Zakat Fund is through deduction at source, as previously explained.³² In the disbursement process, specific amounts are periodically released to the Provincial Zakat Council in proportion to the size of its population. A major share of this fund is then passed on to Local Zakat Committees through the District Zakat Committees. In this way, the actual zakat disbursement to the needy is made mainly by Local Zakat Committees.³³

Pakistan's zakat is primarily used as a poverty reduction mechanism, with the greater part of the fund designated for the poor and needy.³⁴ In carrying out this policy, the zakat ordinance clearly stipulates that the utilization of the fund is not merely limited to the monthly stipend for the unproductive poor, but is also meant to help those who are still productive. Under the rehabilitation program, people in the latter group will be given grants for generating income.³⁵

The government is fully aware of the potential of the disbursement for income generation. The remarks of several individuals are perhaps worth noting to highlight the ruling government's serious effort to give the highest priority to the rehabilitation mechanism; these comments also show that such a mechanism, like other features of the Islamization program, has been inspired from above. For instance, in the International Seminar on the Management of Zakah in Modern Muslim Society held in 1985, as mentioned in previous chapter, the then Chairman of the Senate of Pakistan who was later the president of the country, clearly

²⁹ Nazir, "Zakat and Ushr", 335, 340.

³⁰ Ministry of Religious Affairs, Zakat and Ushr, Government of Pakistan, *Year Book 2005-2006*, (Islamabad: MORA, 2006).

³¹ Nazir, "Zakat and Ushr", 336.

³² Richardson, "Islamic Law and Zakat", 161.

³³ Nasim Shah Shirazi, "Targeting, Coverage and Contribution of Zakat to Household's Income: The Case of Pakistan", *Journal of Economic Cooperation Among Islamic Countries* (17) (3-4) (1996):166.

³⁴ Imtiaz, "Organization of Zakah", 170.

³⁵ Government of Pakistan, Zakat and Ushr Ordinance (No. xv111 of 1980).

mentioned the importance of the rehabilitation mechanism in zakat disbursal.³⁶ Citing his awareness of complaints about the focus on monthly or annual allowances in the distribution arrangements, he signalled a government commitment to ensuring that rehabilitation would be the first priority. As a clear example of how serious the government was, he indicated that the National Zakat Foundation had been set up to reinforce zakat in building the necessary rehabilitation facilities, which zakat on its own was unable to realize.

Imran Ahmad Imtiaz, the first Administrator General Zakat, also firmly noted a similar commitment, and expressed the personal view that to give the highest priority to rehabilitation was in line with the letter and spirit of *sharī'a*.³⁷ According to him, it was the intention of the CZC from its inception to achieve a greater distribution for rehabilitation than for subsistence. Unfortunately, the distribution turned out to consist of a greater proportion for the latter than for the former, for which fact he did not give any reason. He suggested that, accordingly, a new strategy for managing the fund should be introduced so as to give more attention to rehabilitation.³⁸ Since he was the person personally chosen by President Zia to be the first general manager of the zakat council, such a commitment from him definitely carried great significance for the overall zakat administration.³⁹

Although neither the government nor the zakat administration has revealed the origin of the idea of using zakat for such an initiative, it is understood that the Pakistan government might have been inspired by the scholarly writings on zakat which have been widely available throughout the world. In addition, the income generation initiative, as mentioned in the previous chapter, was in operation at the time in many developing countries including Pakistan, so that the government could see its contribution to poverty relief in the country.

Initially, the distribution for income generation was mainly for providing sewing machines or initial capital with which to purchase a buffalo, with a distribution range of between Rs 500 to Rs 5000.⁴⁰ It is the practice of the CZC to

³⁶ Ghulam Ishaq Khan, "Concluding Address", 203-204.

³⁷ Imtiaz, "Organization of Zakah", 171.

³⁸ Imtiaz, "Organization of Zakah", 172.

³⁹ Clark, "Pakistan's Zakat and Ushr", 144.

⁴⁰ Clark, "Pakistan's Zakat and Ushr", 145.

specify how much of the fund should be disbursed through such a mechanism. Rehabilitation was targeted to 4% of recipients and they would be struck off the list of beneficiaries once they received the grant. This to some extent discouraged potential recipients from applying for rehabilitation funds.⁴¹

As a result, the larger fraction of the fund went to beneficiaries who were considered unproductive. In this case, Grace Clark reported that if the LZCs gave more attention to rehabilitation, it would come out of the total allocation, leaving less money for stipends to widows, orphans and others.⁴² Such competing demands would, most of the time, retard the rehabilitation disbursement.

Due to the excess of undistributed funds, there was a policy shift regarding disbursement in the year 2000, when the CZC introduced a Permanent Rehabilitation Scheme of Zakat (PRZS). PRZS is an improved rehabilitation program enabling the beneficiaries to acquire tangible assets with which to sustain economic activity. Under this program, the beneficiaries would be given a one-off lump-sum financial grant of Rs 10,000 to Rs 35,000, besides any other technical support and training.⁴³ Between 2002 and 2003, Rs 4862 million was disbursed under this program, benefiting 257,671 recipients nationally.⁴⁴ How well the program might perform is difficult to discuss as there is no report tracking its performance. Since the scheme mainly relies on undistributed funds rather than on the increment from collection, the sustainability of the project is much in doubt. The undisbursed fund itself was a sign of the incapability of zakat management; so it is quite puzzling how the zakat council could ensure the success of this project without first improving its overall distribution function.

The Islamization of the state through the zakat administration in general and income generation in particular, besides being illustrated by the strong encouragement it received from the government, could also be observed through institutional support. The establishment of the National Zakat Foundation (NZF) is practical evidence that the government is making a serious effort to achieve its goal.

⁴¹ Clark, "Pakistan's Zakat and Ushr", 156; Ahmed, *Role of Zakah and Awqaf*, 93; Arif, "Targeting Efficiency of Poverty Reduction", 26.

⁴² Clark, "Pakistan's Zakat and Ushr", 145.

⁴³ Ahmed, *Role of Zakah and Awqaf*, 94.

⁴⁴ Ahmed, *Role of Zakah and Awqaf*, 95.

The NZF, established in 1982, has been working towards rehabilitation of the indigent by aiding relevant existing institutions and setting up a new one.⁴⁵ With an initial grant of Rs100 million from the Federal Government, the purpose of the Foundation is mainly to build vocational and technical training centres, and health and educational institutions, among other projects.⁴⁶ The foundation could be seen as a supplementary institution for making zakat more effective with using general funds. At the same time, it could solve the *fiqh* problem of ownership. By the principle of zakat disbursal (according to Hanafis in particular), the fund could only be given to individuals and its utilization to meet the costs of institutional establishment is thus prohibited. We will discuss about it shortly.

Discussing the NZF, Gail Richardson stated that 40% of overall government allocation went on the establishment of training institutions. However, it was also stated in the same article that only marketable skill programs, such as sewing, carpentry and candle making, had been introduced. Although the idea is good, the effect of the NZF remains insignificant due to lack of advertisement and management weaknesses, among other reasons.⁴⁷ Apart from that, the inception and role of the NZF were not fully understood by the community, who most of the time were confused and suspected that the fund was taken from the zakat.⁴⁸ The NZF also lacked close contact with other government agencies, and so could not effectively market the availability of the fund to prospective applicants; hence, it is basically less exposed and does not function well.⁴⁹

Provincial governments have to a certain extent further contributed to the proliferation of zakat disbursement for income generation initiatives. Provincial authorities are always aware of the huge number of young poor people who need training and capital to enable them to be successfully employed. Therefore, the technical and vocational training program supported by zakat funds has been in operation since as early as 1998. Punjab is a notable province that has been strongly supporting over a hundred vocational training institutes through the autonomous

⁴⁵ Richardson, "Islamic Law and Zakat", 164.

⁴⁶ Butt, "Case Study: Pakistan", 391; Richardson, "Islamic Law and Zakat", 164.

⁴⁷ Richardson, "Islamic Law and Zakat", 178.

⁴⁸ Clark, "Pakistan's Zakat and Ushr", 147.

⁴⁹ Richardson, "Islamic Law and Zakat", 178.

corporate body the Punjab Vocational Training Council (PVTC). The realization of this initiative was facilitated by the Punjab Vocational Training Council Act of 1998, with the vital mission of alleviating poverty, through zakat and the private sector, by enhancing the employability of disadvantaged youth.⁵⁰

Through this initiative, prospective students eligible for zakat funds could bring their zakat certificates to any local vocational training institute, which on behalf of each student would directly approach the district zakat committee for confirmation and withdraw the zakat funds. In 2006, for example, each student received \$36 per month out of which \$8 was for personal stipends and \$28 for the course fee. On top of that, at the end of the course a trainee would be given an additional \$85 with which to buy necessary tools and equipment.⁵¹ As we understand the working of the initiative, it is akin to distribution for poor eligible students of other branches of knowledge. The difference lies only in the extra funds given on completion of the course to enable students to launch their potential income generation projects.

Until 2008 there were 145 Vocational Training Institutions under the Punjab Vocational Training Council, with a track record of 25,000 students passing.⁵² There have also been rather encouraging records of accomplishment, as a study revealed that almost 80% of the more than a thousand graduates accounted for have managed to secure employment in various sectors.⁵³ In general, the PVTC project seems to have been fruitful and to have had a good impact on many poor youth in the locality. The main question, whether such a mechanism could be expanded to the older productive poor, has yet to be answered. Support for youth could undeniably provide them with a better future without necessarily relying on technical and vocational skills. In this context, it was also fortunate to have vocational institutions which willingly (but of course not for free) offered their services to zakat recipients. The provincial zakat council must indeed seriously consider how such a mechanism could benefit a broader range of zakat recipients.

⁵⁰ See <http://www.pvtc.gov.pk>, (accessed, December 9, 2009).

⁵¹ Savera Hayat and Iqbal M. Khan, "Punjab Vocational Training Council: Using Muslim Philanthropy for Youth Employability", EEA Case study, No.1, Education and Employment Alliance, 2007, 3.

⁵² <http://www.pvtc.gov.pk>, (accessed, December 9, 2009).

⁵³ Hayat and Khan, "Punjab Vocational Training", 4.

Up to this point of discussion, it is clear that the Pakistan government has formed a rather sophisticated organizational structure to collect and disburse zakat. Similar to that of collection part, government through its top leaders has shown an active role to ensure their project will be successfully undergone. In this context, as earlier stated, the president himself selected the first man responsible for the whole project. In other occasion, the Chairman of Senate also involved in announcing improvement in zakat disbursement. As meant to improve the distribution, government has initiated the zakat dispersal for income generation and later established NZF to help zakat administration more smoothly functional. As we will see shortly the NZF is to certain extent help government to solve legal problems. Of all, as we have seen through the establishment of zakat institution in Pakistan in general, we could briefly say that state has demonstrated a top down model of Islamization in realizing its aim to reform in economics through zakat.

4.2.2 Limited *ijtihād* in Pakistan

Apart from improving the zakat system by introducing new means of disbursement, the Islamization process in the zakat institution also involves the process by which the government of Pakistan overcomes the limitations of classical *fiqh* requirements: in other words, how to deal with the traditional view which, in certain ways, hinders the zakat from being utilized for generating income. It is worth noting that among the problems of the distribution through income generation are the issue of *al-tamlīk* (ownership) and also the maximum amount could be received by an individual recipients. Such issues are pertinent to be clarified as income generation will involve the bigger amount as compared to the direct disbursement. The fund also will not necessarily given to the recipient in the form of tangible asset, but in certain cases will involve services such as provision of training courses and other intangible contribution.

As far as the issues are concerned, the Ḥanafī school of law in particular upheld most strictly. As the Ḥanafī is the predominant school of law for the majority Sunni sect in Pakistan, for such an initiative to be widely offered obviously presents a challenge. Perhaps we should first delineate the issues in classical Ḥanafī perspective before going further on what Pakistan scholars have said about it.

The principle of *al-tamlīk* has been substantially discussed in any classical writings about zakat. *Al-tamlīk* means the transfer of individual ownership rights of the zakat from payer or his representatives to the recipients which is validated by the Lawmaker except where there is a constraint.⁵⁴ In a normal situation, the zakat is transmitted to the beneficiaries in person, so that they possess full right and ownership over it. Consequently, the beneficiaries can dispose of the zakat as they wish without any outside interference. This can be deduced from the word “*itā*” (give) in a number of Quranic verses such as (2:43)⁵⁵ and (2:110).⁵⁶

Apart from that, the majority of jurists agree that the condition of ownership transfer could also be understood from the usage of “*lām al-tamlīk*” as it is considered as a preposition to signify the transfer of right in verse (9:60) which prescribed the eight designated recipients.⁵⁷ In this aspect, Ḥanafīs hold that perfect ownership must be observed all the time and extended to all of the designated recipients. Perfect ownership is also considered an essential element (*rukṇ*) to ascertain the validity of zakat distribution⁵⁸ whereby it is only satisfactorily observed when the following conditions are fulfilled:

1. Full entitlement must be granted with perfect personal freedom to use the disbursed wealth without any restriction. Accordingly, the disbursements such as building a mosque, providing food for the poor, paying debt of the deceased and freeing slaves are not permitted. The Ḥanafīs however approve as a subterfuge, any expenditure made by the recipients for the above purposes provided the right has been initially conferred.⁵⁹

⁵⁴ Zayn al-‘Ābidīn ibn Ibrāhīm Ibn Nujaym, *al-Ashbāh wa al-Nazāir ‘alā Madhhāb Abī Ḥanīfa al-Nu’mān* (Beirut: Dār al-Kutub al-‘Ilmiyya, 1993), 346.

⁵⁵ “And be steadfast in prayer; practice regular charity; and bow down your heads with those who bow down (in worship)” See Quran, 2:43.

⁵⁶ “And be steadfast in prayer and regular in charity: And whatever good ye send forth for your souls before you, ye shall find it with Allah: for Allah sees Well all that ye do”. See Quran, 2:110.

⁵⁷ “Alms are for the poor and the needy, and those employed to administer the (funds); for those whose hearts have been (recently) reconciled (to truth); for those in bondage and in debt; in the cause of Allah; and for the wayfarer: (thus is it) ordained by Allah, and Allah is full of knowledge and wisdom”. See Quran, 9:60; also see Muhammad Amīn Ibn ‘Ābidīn, *Radd al-Mukhtār ‘Alā al-Durr al-Mukhtār Sharḥ Tanwīr al-Abṣār*, v3. (Beirut : Dār al-Kutub al-‘Ilmiyya, 1994), 171; ‘Alaw al-Dīn Abī Bakr Ibn Mas’ūd al-Kasānī, *Badā’i Sanā’i fī Tartīb al-Sharā’i*, v2 (Beirut: Dār al-Kutub al-‘Ilmiyya, 1986), 39.; Maṣṣūr Ibn Yūnus Ibn Idrīs al-Buhūfī, *Kashāf al-Qinā’ ‘an Matni al-Iqnā’*, v2 (Beirut: ‘Ālim al-Kutub, 1997), 282.

⁵⁸ al-Kasānī, *Badā’i Sanā’i*, v 2, 39.

⁵⁹ Ibn ‘Ābidīn, *Radd al-Mukhtār*, v3, 171; al-Kasānī, *Badā’i Sanā’i*, v2, 39.

2. The fund can only dispersed tangibly. Hence, paying zakat in the form of intangible benefits, such as giving the right to reside in a house is invalid, as Ḥanafīs do not consider such a benefit as a wealth.⁶⁰
3. The recipients must be legally sensible (*ā'qil*) and have capacity to possess the wealth (*ahl al-tamalluk*). As a result, the insane, underage, deceased and slaves are not eligible for the zakat proceeds.⁶¹
4. Previous owner of the wealth should not, in anyway, involve in the fund spending. Thus, the transfer from father to his children is void as the former might still have power on the wealth utilization.⁶²

It is however worth noting that the classical scholars have also discussed about the situation where the perfect *al-tamlīk* might not necessary prevail. Other *mahdhab* apart from Ḥanafī are rather lenient in this matter. Referring to the distribution verse (9:60), instead of the usage of the preposition “*lī*”, the other half of the recipients have been mentioned using the preposition “*fī*”. The different preposition used for the second group namely slaves, debtors, those in the way of God and wayfarers signifies the difference in how the zakat should be distributed to them.

In this case, the Hanbalīs and the Shafī'īs divide the recipients into two, with the former comprising the first four groups where physical wealth must be handed over personally. The “*lām*” prefix of the first four groups connotes an absolute transfer of ownership since it involves personal recipients who can own the wealth.⁶³ Mālikīs in this regard, however include the wayfarer in the first four groups.⁶⁴ The distribution of zakat differs for the latter four groups of recipients where the “*fī*” *al-*

⁶⁰ Ibn ‘Ābidīn, *Radd al-Mukhtār*, v3, 172; al-Kasānī, *Badā'i Sanā'i*, v2, 39.

⁶¹ Ibn ‘Ābidīn, *Radd al-Mukhtār*, v, 171; al-Kasānī, *Badā'i Sanā'i*, v2,39

⁶² al-Kasānī, *Badā'i Sanā'i*, v2, 40

⁶³ al-Buhūtī, *Kashāf al-Qinā'*, v2, 103; al-Shirbīnī, Muhammad Ibn Ahmad, *al-Iqnā' fī Hall alfāz Abī Shujā'*, v3 (Beirut: Dār al-Kutub al-'Ilmiyyah, 1996), 79; al-Shirbīnī, Shams al-Dīn Muhammad Ibn al-Khāṭib, *Mughni al-Muhtāj ilā Ma'rifa Mā'anī alfāz al-Minhāj*, v3 (Beirut: Dār al-Ma'rifa, 1997), 140.

⁶⁴ al-Dusūqī, Muhammad Ibn ‘Arafah, *Hashia Dusūqī ‘alā Sharḥ al-Kabīr*, v1 (Egypt: Dār Ihyā' al-Kutub al-'Ilmiyyah, n.d) 495-497.

zarfiyya denotes that the ownership is restricted for specific purposes only.⁶⁵ In this case, the wealth is not actually for their personal consumption but to be paid to someone else, thus the recipients merely act as a keeper for the real owner (*aḥzan murā'an*).⁶⁶ For example the wealth given to the debtor is actually not meant for him but to pay the lender which in turn will indirectly benefit the debtor. The jurists further assert that should there be any excess after settling the debt, the recipient should then return it to the collector. A similar condition applies to the other groups such as the slaves as they must return the money if the objective of the disbursement failed to be achieved.⁶⁷

Apart from the issue of ownership, the idea of zakat for income generation, as briefly aforementioned, is indeed to certain extent related to maximum eligible amount could be received by a recipients. This issue actually deeply rooted from the broader question of whether or not an able-bodied person is entitled to accept zakat fund. The majority of scholars opine that zakat must not be spent for a rich person or a person capable of working whose income would be adequate for personal and family needs.⁶⁸ This is based on the prophet's saying: "Alms are unlawful (both) for him who is materially self sufficient and for him who is mentally and physically fit (and able to find work)".⁶⁹

In this context, Ḥanafīs apply simple property tests based on the ownership of *niṣāb* (minimum amount liable to zakat) to determine wealth. They consider wealth as owning a *niṣāb* value of property above an individual's need, either the property is

⁶⁵ al-Buhuti, *Kashaf al-Qina'*, v2, 282; al-Shirbini, *Mughni al-Muhtaj*, v3, 140, Al-Nawawi, Abu Zakariyya Muhyi al-Din ibn Sharaf, *Rawda al-Talibin*, v 2 (Beirut: Dar al-Kutub al-'Ilmiyyah, n.d), 178.

⁶⁶ Ibn Qudāma, 'Abdullah ibn Ahmad ibn Muhammad. *Al-Mughni*, v4 (Riyadh: Dār 'Alam al-Kutub, n.d), 130.

⁶⁷ al-Buhūtī, *Kashāf al-Qinā'*, v2, 282; al-Shirbīnī, *Mughni al-Muhtāj*, v3, 140

⁶⁸ Abū Zakariyā Muhy al-Dīn al-Nawāwī, *Kitāb al-Majmū'*, v6 (Jeddah: Maktaba al-Irshād, n.d), 171 ; Muhammad ibn Idrīs al-Shāfi'ī, *Kitāb al-Umm*, v3 (Beirut: Dār al-Kitāb al-'Ilmiyya, n.d), 189 ; Sulaimān Ibn Khalāf al-Bājī, *Kitāb al-Muntaqā Sharh Muwatta'*, v2 (Egypt: Maṭba'ah al-Sa'āda, 1332h), 155.

⁶⁹ Muhammad Ibn 'Isā Ibn Sawra al-Tirmīdhī, *Sunan al-Tirmīdhī* (Riyadh: Maktaba al-Ma'ārif li al-Nashr wa- al-Tawzī', n.d) 164. Further explanation can be derived from a Hadith narrated by 'Ubaydullāh ibn 'Adi ibn al-Khiyār that two men told him that they went to the Prophet and asked for some zakat. The Prophet looked at them thoroughly and found them strong and said, "If you wish, I will give it to you, but the rich and the strong who can earn a living have no share in it." See Abū 'Abd al-Rahmān Ahmad Ibn Shu'aib Al-Nasā'i, *Kitāb al-Sunan al-Kubrā*, v3, (Beirut: Muassasa al-Risāla, 2001), 79; al-Nawāwī, *Kitāb al-Majmū'*, 170.

subject to zakat or not. That is the reason why zakat is only taxable upon those who have more than a *niṣāb* value or equivalent of five *awsuq* (measurement of volume) of grain, five camels or *awāqī* of silver (200 *dirhāms*). On the other hand, having less than that is considered poor and hence eligible to receive zakat.⁷⁰ Shah Waliy allah al-Dihlawi, an 18th century Ḥanafī scholar for example, in rationalising the *niṣāb* as a poverty line, observes that the *raison d'être* is that, in the time of the prophet, five *awsuq* was sufficient to last a family of three for a year.⁷¹

As having the amount of *niṣāb* is considered sufficient or rich, any distribution of zakat to each person must therefore be less than *niṣāb* value.⁷² The Ḥanafīs recommend that the poor should receive enough zakat to relieve them of the need to beg for only one day. They disapprove of giving property to a poor person that is equivalent to or more than *niṣāb* value since the ownership of property above that level may obligate the owner to pay instead of receive zakat.⁷³ This is consistent with their view of prohibiting the same individual to be both a payer and recipient at the same time.⁷⁴

For the other *madhhab*, the state of rich is not measured by *niṣāb* but based on personal economic sufficiency. In this regard, they applied means testing. The Shafī'is, for example, opine that a person is considered rich when he can meet the expenses of his lifestyle, including food, clothing and shelter. Such a person is said to possess a "sufficiency" (*kifāya*).⁷⁵ According to al-Shāfi'ī, the founder of Shāfi'ī *madhhab*, someone could only be considered rich when he has ample wealth where their loss in earnings does not affect their wealthy state or when he has stable earnings.⁷⁶ Unlike Ḥanafī scholars which limit the entitled recipients to receive no more than *niṣāb* value, Shāfi'īs do not have such a limit. They suggest that the amount of zakat fund given should be substantial enough to remove them from the

⁷⁰ Shams al-Dīn al-Sarakhsī, *al-Mabsūt*, v3 (Beirut: Dār al-Ma'rifa, n.d), 4; Kamāl al-Dīn Muhammad 'Abd al-Wahīd Ibn Humām, *Sharḥ Fath al-Qadīr*, v2 (Egypt: Maktaba wa Matba'a Mustafā al-Halabī, 1970), 266.

⁷¹ Shah Waliy allāh al-Dihlawī, *Ḥujjat allāh al-Bālighā*, v2 (Beirut: Dār al-Jīl: 2005), 66; Saud, *Contemporary Zakat*, 75.

⁷² Ibn Humām, *Sharḥ Fath al-Qadīr*, 303.

⁷³ Ibn Humām, *Sharḥ Fath al-Qadīr*, 303-306; Ibn 'Ābidīn, *Radd al-Mukhtār*, 303.

⁷⁴ Ibn Humām, *Sharḥ Fath al-Qadīr*, v2, 283.

⁷⁵ al-Nawāwī, *Kitāb al-Majmū'*, v6, 172.

⁷⁶ Al-Shāfi'ī, *al-Umm*, v3, 189

poverty permanently (*mā taḥsilu bihī al-kifāya ‘alā al-dawām*) without specific limit.⁷⁷

The Hanbalīs and Malikīs also have a similar definition of wealth and sufficiency as that of the Shafī’īs,⁷⁸ The different between them might regard to the length of the period where a recipient should be helped. They however, look to sufficiency for a year, where any zakat distribution may only suffice an individual’s need for a period of one year.⁷⁹

Based on the above discussion, it appeared that classical opinions in Ḥanafī, unlike other schools of law, are not in favour to any attempt to disperse the fund exceeding the limit and without complete personal ownership. Such opinions, could potentially discourage income generation initiative through zakat. Hence, as we find shortly, scholars and government alike in Pakistan have introduced solutions for the issues.

Looking back to the modern Pakistan, the overall zakat system is closely supervised by the CZC and the Council of Islamic Ideology (CII), the highest authority pertaining to legal ruling in the state. The CZC will normally only adopt a certain policy if it is in line with the CII stand.⁸⁰ As the majority of the population belongs to the Ḥanafī sect, it is not surprising that traditional Ḥanafī scholars have been dominant members of the CII who ultimately use Ḥanafī *fiqh* as a main reference.⁸¹ In this regard, Muhammad Ikram Khan clearly mentioned in his paper on zakat that among the objectives of including religious scholars in zakat councils is to ensure that the practice will conform to traditionally sourced Ḥanafī *fiqh* to the greatest possible extent. Only in the case of a situation not covered by the source, according to him, will *ijtihād* then be employed.⁸²

⁷⁷ al-Nawāwī, *Kitāb al-Majmū’*, v6, 175; Al-Ramlī, Sham al-Dīn Muhammad ibn Ahmad, *Nihāya al-Muhtāj ilā Sharh al-Minhāj fī al-Fiqh ‘alā Mazhab al-Imām al-Shāfi’ī*, v6 (Cairo: Matba’ah al-Halabī, n.d), 159.

⁷⁸ Al-Dusuqi, Muhammad Ibn ‘Arafah, *Hashiya al-Dusuqi ‘ala Sharh al-Kabir*, v 1, (Egypt: Dar Ihya’ al-Kutub al-‘Ilmiyya, n.d) , 494.

⁷⁹ Al-Dusuqi, *Hashiya al-Dusuqi*, v1, 494

⁸⁰ Muhammad Akram Khan, “An Evaluation of Zakah Control Systems in Pakistan”, *Islamic Studies* (32)(4) (1993):415.

⁸¹ Kemal A. Faruki, “The Islamic Resurgence: Prospects and Implications”, in *Voices of Resurgent Islam*, ed. John L. Esposito (New York: Oxford University Press, 1983), 283.

⁸² Khan, “An Evaluation of Zakah”, 414.

The general view that the *al-tamlīk* principle must be observed at all times is widely shared by Pakistani scholars. Khan also clearly emphasized that the principle is among the main elements under the control of distribution, so that the fund could not be spent on buildings, roads and other infrastructure.⁸³ This view is in fact not only that of the CZC or CII but is also held by others. Outside these bodies, Taqi Uthmani, for example, has been among those holding strictly to the *al-tamlīk* principle. As a notable scholar internationally, he was also a judge of the Federal Shariah Court and *Shari'a Appellate Bench* of the Supreme Court of Pakistan during the Zia ul Haq government. Although he agreed that the poor should be helped to be productive, the way zakat is distributed must be fully in accord with the principle. That is why he also rejected the use of zakat for building facilities and suggested that funds for that purpose should be allotted from other sources.⁸⁴ Al-Mawdudi, perhaps one of those who were quite lenient regarding the issue of *al-tamlīk*, earlier explained that he was affirmative towards the broader use of zakat for productive purposes.⁸⁵ However, since he died before the official zakat administration was launched, it seems that all his fundamental *ijtihād* has not been put into practice.

In order to overcome the *fiqh* limitation, as earlier mentioned, the government prefers to make a structural modification. Government helps the zakat institution through the NZF whereby training and other welfare institutions could be legally set up. Provincial government also extensively supports training programs, using their own allocation. In short, the *al-tamlīk* principle in many ways has been observed by using other sources to top up zakat funds, with government, in this regard, being the biggest contributor.

There are a few small modifications that could, however, still be found in the Pakistan zakat practice. It is an interesting point to note about the distribution of zakat, especially for rehabilitation, is that under the strict Ḥanafīs view, as aforementioned, the distributed fund must be less than *niṣāb*, which is not necessarily the case. In the early 1980s for example, the disbursement reportedly amounted to Rs 5000, whereas the then *niṣāb* limit was only around Rs 2000-Rs 3000. After 2001,

⁸³ Khan, "An Evaluation of Zakah", 415.

⁸⁴ OIC, *Majalla Majma' al-Fiqh al-Islami al-Dawr al-Thalitha li Mu'Tamar Majma' al-Fiqh al-Islamiy*, v 1, no 3. (Muassasa al-Tiba'a wa Saffa wa al-Nashr, 1987), 389-390.

⁸⁵ Abul A'la al-Mawdudi, *Fatawa al-Zakah* (Jeddah: King Abdul Aziz University, 1985), 55.

under the newer rehabilitation system the limit is much higher – up to Rs 35,000 as compared to the *niṣāb* limit which is for example only around Rs 15,000 in 2009.⁸⁶ Hence from the practice, we could clearly see that the zakat institution has made a slight modification in this area. Having the fact that the organization could not do without blessing from the scholars, we could suggest that the modern Pakistan scholars have turned to affirmative in this aspect.

In the collection procedure, the deduction at source is also a new means of zakat payment never mentioned in any classical sources. It seems also that savings accounts and certificates safeguarded by the bank are currently included within the doctrine of apparent assets, a new interpretation based on the modern perspective. This is because Ḥanafīs are of the view that only apparent assets are subject to compulsory collection by the government.⁸⁷ This, however, will not be discussed here, as the collection mechanism is not part of the focus of this study.

From the above discussion pertaining to the *ijtihād* in Pakistan, we can observe that the process is similar to the overall administration mechanism which features strong central control. The decision regarding zakat is mainly under the purview of the CZC and CII. As they are close to the highest authority, the approach of using government support, as in the establishment of the NZF, seems to promise easier realization.

Although we cannot see many changes, especially regarding income generation, we cannot simply say that most of the *‘ulamā* in Pakistan hold strictly to the traditional rulings of the Ḥanafī school of law, themselves resisting any bold change. The problem with this type of top-down approach is that the policy and decision maker is too far from the real problem, the masses of recipients, and cannot see directly how the distribution has been operating and what related problems have arisen. When many problems and anomalies cannot be clearly seen from above, how can the policy makers begin their investigation and process of reasoning?

⁸⁶ Ahmed, *Role of Zakah and Awqaf*, 95; For the 2009 *niṣāb* rate refer http://www.app.com.pk/en_/index.php?option=com_content&task=view&id=16355, (accessed December 13, 2009).

⁸⁷ Ann Elizabeth Mayer, “Islamization and Taxation in Pakistan”, in *Islamic Reassertion in Pakistan*, ed. Anita M. Weiss (New York: Syracuse University Press, 1986) 64-65.

Another possibility in such a situation is perhaps to consider it from a political angle. It is difficult to make a considerable change in *fiqh*, which is widely accepted by the majority, when in fact society is suspicious about how zakat is handled in Pakistan. In this case, any departure from traditional *fiqh* will be directly seen as the government fabricating religious obligations in accordance with its political aims.

4.2.3 Performance and achievement

After three decades in operation, the overall zakat distribution has only managed to minimally help the recipients. Shirazi's appraisal, for example, provides a broad view of Pakistan's zakat. Using the economic census and caloric intake studies, he concluded that zakat has increased the caloric intake of the lowest income group and reduced the poverty gap by 2-3%.⁸⁸ Grace Clark, in a 1999 study, also found that zakat had contributed only modestly to the betterment of the poor beneficiaries. The majority of the fund still goes into the monthly stipend, with only about 4% going into rehabilitation. Although training has been made available, many of the recipients still do not receive it so that the funds distributed may not be put to effective use. There are also other major problems such as bureaucracy and mismanagement. For example, Clark noted one ironical case where, despite the widespread belief that the zakat fund was far from sufficient, there was at the time a large undistributed stock of sewing machines in the North-West Frontier Province awaiting CZC permission to disburse them.⁸⁹

The Pakistan Socio-Economic Survey 2000/2001 also indicated that zakat could be utilized by only a fraction of Pakistani society, in which, out of seven million poor households, fewer than one-tenth received zakat from LZCs.⁹⁰ Of these beneficiaries, the majority received the monthly allowance, amounting to 0.72 million households. Although the study has proven that the distribution reached the

⁸⁸ Nasim Shah Shirazi, "An Analysis of Pakistan's Poverty Problem and its Alleviation Through Infaq" Phd Dissertation, International Islamic University, 1994, 195.

⁸⁹ Clark, "Pakistan's Zakat and Ushr", 157.

⁹⁰ Arif, "Targeting Efficiency of Poverty Reduction", 28.

target of the lowest income group, there are still leakages of the fund due to favouritism and mismanagement.⁹¹

Savera Hayat and Iqbal M. Khan, through their basic research in 2006, however, have shown that the impact of the training and income generation program is rather encouraging. The study, which incorporates eight VTIs in Punjab, found that the employability of the youth is significantly high, 78% percent of graduates being employed.⁹² The study also provides examples of graduates who are able to employ other new graduates.⁹³ As mentioned earlier, this is the area which Pakistan's zakat program should further develop and give more attention to, alongside other measures to ensure the wider expansion of such a mechanism.

After decades of implementation, it seemed that the Pakistan state Islamization model of zakat was very much reliant on the personal commitment of the then head of government, Zia ul Haq. Subsequent leaders, however, did not share the same dream. The golden age of zakat, according to Clark, could only be observed during the first 15 years when the government was very careful in its management. Mismanagement of the fund has been frequently reported with no conclusive rectifying steps having been taken by the government so far.⁹⁴ Nawaz Sharif, the later president, introduced his own brand name welfare body, Baitulmal, within which the NZF was absorbed.⁹⁵ The zakat management at one time had even been surrendered to the Financial Ministry before being handed back to the Ministry of Religious Affairs in 1997.⁹⁶ The collected fund also has been neglected and left undistributed for a period (1996-1997) without clear explanation.⁹⁷ Such a situation not only shows clearly the ambivalence of government in managing the fund, but is also in clear contradiction with the sacred rulings, in total contrast to its predecessor. These are among the reasons why zakat still does not play an important role in poverty alleviation in Pakistan even after almost three decades since its launch. With the lack of commitment of the current government, it remains unclear whether or not

⁹¹ Arif, "Targeting Efficiency of Poverty Reduction", 38.

⁹² Hayat and Khan, "Punjab Vocational Training", 4.

⁹³ Hayat and Khan, "Punjab Vocational Training", 5.

⁹⁴ Clark, "Pakistan's Zakat System: A Policy Model", 56, 59.

⁹⁵ Clark, "Pakistan's Zakat and Ushr", 148.

⁹⁶ Clark, "Pakistan's Zakat and Ushr", 150.

⁹⁷ Clark, "Pakistan's Zakat System: A Policy Model", 61.

zakat can contribute to the betterment of society, let alone help the government to achieve a full Islamic state. As an ideologically inspired programme aimed at establishing a true Islamic society, it seems that the top-down approach, the intended impact of which is for the society to become more Islamic, is still hardly followed.⁹⁸

In sum, the Islamization of the zakat institution in Pakistan is a model of the Islamization of the state, whereby the state has extensively used its apparatus to meet its target of improving the people's economic condition through an Islamic instrument. The enhancement of the zakat institution, including the income generation initiative, could therefore be seen as part of a government agenda for building an "Islamic state" which is hoped could finally succeed in pleasing people.

When Zia came to power, he promised to hold elections after a few months, but apparently failed to do so. He then turned to Islamization project, an endeavour which can be easily understood as a means of gaining support from society. Hence, it can be safely argued that that is why, as we have seen, the government made concessions to ensure the successful implementation of the project.

Indeed, the government to a certain extent succeeded in forming a centralized zakat administration system. Despite the strong commitment from the top, the community did not seem very supportive in helping the government's aim to make zakat as a successful part of economic reform become reality. The problem of commitment from below might perhaps only be rectified through greater focus on publicity and on-going education.

4.3 Indonesia – Islamization of Society

Although Indonesia is the most populated Muslim nation in the world, Islam has never been constitutionally declared a state religion.⁹⁹ Historically, the nation was established after the demise of Japanese rule in 1945 and was earlier under Dutch colonial government from 1602 until 1942. The Indonesian government has

⁹⁸ Hassan, "Islamization: An Analysis", 264.

⁹⁹ Salim, *Challenging the Secular State*, 79.

consistently kept itself detached from any religious inclination.¹⁰⁰ Accordingly, the government, from the time of its first president, Sukarno, has chosen to set Islam aside and install its own national philosophical foundation, *pancasila*, which derives from the nationalism of the republic.¹⁰¹

Indeed there was an endeavour by Muslims leaders when the nation was about to be established (1945), to add an Islamic element into the *pancasila*. There was an agreement made in a meeting in Jakarta, which has since been popularly known as Jakarta Charter. In the meeting, the first principle of *pancasila* has been modified, changing it from “Belief in God” to “Belief in God with the obligation to carry out Islamic *shari’a* for its adherents”. The agreement however, was finally nullified because secular nationalist leaders including the selected first president to be, believed that the Christians who resided in eastern parts of the country would not join the republic should Islam be fused with the state.¹⁰²

Soekarno (president from 1945 to 1966), took a stance against the west, mainly Britain and the US, and appeared generally inclined towards the communist ideologies supported by China and Russia. In 1957 however, he introduced a guided democracy in which power of the government was mainly concentrated on himself.¹⁰³ With this level of power and backed by the army, he sturdily suppressed religious dissention by disbanding religious parties and jailing scholars. In this way, Masyumi, a Muslims’ party, was dissolved in 1960 with many of its leaders being jailed.¹⁰⁴ Under the screen of such oppression, the Islamization phenomenon in Indonesia during the era of Soekarno was something not clearly observed.

Soekarno handed over power to Suharto when he was no longer able to control the situation; his communist sympathizing presidential guards had murdered a number of high military officers in 1965. Suharto subsequently took control of the army and assumed power, eventually putting the full blame for events on the

¹⁰⁰ Kikue Himayatsu, “Islam and Nation Building in Southeast Asia: Malaysia and Indonesia in Comparative Perspective”, *Pacific Affairs*, (75)(3) (2002): 355, 366.

¹⁰¹ Himayatsu, “Islam and Nation Building”, 355.

¹⁰² Himayatsu, “Islam and Nation Building”, 366; Bahtiar Affendy, *Islam and the State in Indonesia* (Singapore: ISEAS, 2003), 30-33.

¹⁰³ Ikrar Nusa Bhakti, “The Transition to Democracy in Indonesia: Some Outstanding Problems”, in *The Asia Pacific: A Region in Transition*, ed. Jim Rolfe (Honolulu: Asia Pacific Center for Security Studies, 2004), 198.

¹⁰⁴ Affendy, *Islam and the State*, 43-44.

communist party, leading to a massacre of its members.¹⁰⁵ A calm and peaceful situation in Indonesia only returned in around 1968. Unlike previous eras of conflict, poor economy and political instability due to a communist threat, economic development also took an upturn in the 1970s, especially with the aid from west.

In the earliest days of Suharto's assumption of power, there were several attempts made by Muslim leaders to change the government attitudes towards Islam. For example in 1968, in a parliamentary meeting, a number of religious leaders suggested reintroducing the amended version of the first principle of *pancasila* agreed upon in the Jakarta Charter.¹⁰⁶ It appears that the attempt was however rejected by the members of parliament. Throughout his time in power, the second president, also from a military background, generally continued the policy of steering clear of religion and religious issues (although he was not necessarily against it).

Unlike in Pakistan, where Islamization is strongly encouraged by the government, in Indonesia it is not always welcomed. Since the attempt to Islamize the state through politics failed, Islamization in Indonesia is commonly associated with attempts to Islamize society, mainly through propagation and community services. It is also associated with a subtle change in society which has slowly taken place without any signs of a revolution.

For example, scholars and leaders since the 1970s, have been trying to come up with a way to implement Islam in secular modern Indonesia. Some of them finally considered that an Islamic state was no longer a priority and was not necessarily needed in order to implement Islam.¹⁰⁷ Consequently, society and Muslim masses has established charitable and social services organizations to take care their interest such as Islamic schools and zakat and charity bodies. It was through this type of Islamization that zakat administration and income generation in Indonesia appears to have been commonly introduced.

¹⁰⁵ Adrian Vickers, *A History of Modern Indonesia* (Cambridge University Press: New York, 2005), 160.

¹⁰⁶ Salim, *Challenging the Secular State*, 87

¹⁰⁷ Affendy, *Islam and the State*, 68.

4.3.1 Zakat administration and income generation in Indonesia

Because of the neutral stance of the government, zakat has generally been left to the community to collect and discharge. Even after independence, the ruling government restrained the Ministry of Religious Affairs (MORA)¹⁰⁸ from interfering in community zakat administration. The role of MORA, established during the Dutch rule, is mainly to guarantee people's freedom to practise their beliefs, regardless of their religion.¹⁰⁹ Hence, as far as zakat is concerned, what MORA needed to do, in the eyes of the government, was only encourage people to observe their obligation to discharge what was due, and to ensure that the disbursement is in accordance with Islamic principles.¹¹⁰

Several occasions have marked the positive development of zakat institutionalization, from as early as the beginning of the second president's term at the end of the 1960s. This came as part of the national phenomenon of Islamic resurgence, during which society was increasingly concerned to improve the management and utilization of zakat.¹¹¹

As mentioned above, there were attempts by religious leaders to revive the Jakarta Charter between 1966 and 1968, but these failed. This however, did not stop them making further attempts. Some scholars in 1968 were of the view that before the Jakarta Charter could be revived, the state should actively promote adherents to be better observed. Mohd Dahlan, who was then Minister of MORA, and Saleh Suaidy, a religious scholar in Jakarta believed that the first step of the zakat should be administered by state.¹¹² MORA eventually issued a Ministerial Decree in July 1968, concerning the foundation of a Badan Amil Zakat (zakat agency) and the formation of a *Baitulmal* (*Bayt al-māl* or the Islamic Treasury), which would be responsible for managing zakat.

Although this effort was quite inconsistent with the government's overall stance, it was not surprising, since MORA at that time had leanings towards the

¹⁰⁸ MORA has several sections which individually deals with different religion and beliefs: Islam, Protestant, Catholic and Hindu Buddhist. Salim, *Challenging the Secular State*, 71.

¹⁰⁹ Salim, *Challenging the Secular State*, 122.

¹¹⁰ Salim, *Challenging the Secular State*, 122.

¹¹¹ Abdullah, "Zakat Collection and Distribution in Indonesia", 55.

¹¹² Arskal Salim, "Zakat Administration in Politics of Indonesian New Order" in *Shari'a and Politics in Modern Indonesia*, ed. Arskal Salim and Azyumardi Azra (Singapore: ISEAS, 2003), 186-188.

Nahdatul Ulama, a Muslim organization (which sometimes opposed government policies) of which Mohd Dahlan himself was an ex-president of the organization.¹¹³ Furthermore, since the government was still in transition, the president did not have strong grip over the minister's selection.

It is worth noting that in September 1968, and perhaps supporting the MORA effort, eleven religious scholars of Jakarta issued an appeal to the new president, reminding him of the importance of zakat in hastening the process of development. They asked the president to urge Islamic adherents to comply with their religious obligations and to advise governors of all provinces to take the initiative in coordinating the collection and distribution of zakat.¹¹⁴

Eventually in his speech during the Prophet's Ascension celebration in October 1968, Soeharto advised people to comply with their religious duty by stressing its religious and social importance. He declared his willingness as a private citizen to take charge of a national collection.¹¹⁵ He then assigned his military officers to make all necessary preparations for a nationwide collection. He also suggested that all provincial governments set up their own systems of collection.¹¹⁶ The fund was then to be credited to his account and then disbursed personally.¹¹⁷ The first governor to take such an initiative was Ali Sadikin, who established Badan Amil Zakat dan Sedekah (Zakat and Charity Collection Body or BAZIS) Jakarta, a semi-governmental zakat agency, in December 1968. Many other BAZIS offices were established later, for example, in East Kalimantan (1972) and West Sumatra (1973).

The president's undertaking to administer the fund in a personal capacity, despite his power to make it official and compulsory through legal and government regulation, was rather puzzling. His motive, however, can be explained by the subsequent effect of his actions. As a direct consequence of the president's

¹¹³ Abdullah, "Zakat Collection and Distribution in Indonesia", 58; Salim, "Zakat Administration", 188.

¹¹⁴ Abdullah, "Zakat Collection and Distribution in Indonesia", 50; Salim, "Zakat Administration", 185.

¹¹⁵ Abdullah, "Zakat Collection and Distribution in Indonesia", 51; Salim, *The Shift in Zakat Practice*, 30; Salim, *Challenging the Secular State*, 123.

¹¹⁶ Abdullah, "Zakat Collection and Distribution in Indonesia", 51; Salim, *The Shift in Zakat Practice*, 30.

¹¹⁷ Salim, *The Shift in Zakat Practice*, 31.

announcement, the decree earlier issued by MORA had to be annulled to give way to the new project.¹¹⁸

This collection system, however, could only be sustained until 1974, when Soeharto officially withdrew from duty, which according to him this was because of the lack of collection.¹¹⁹ It is ironic however, despite his statement that the collection from zakat was too small, that later, in 1982, he created a foundation which levied charitable contributions (not zakat) from public servants (deducted directly from their salaries) with which he successfully built hundreds of mosques all over the country.¹²⁰ This, he could have done with zakat, but he was reluctant; therefore, we could safely conjecture that Soeharto's act of introducing the collection and disbursal of zakat in his personal capacity as a Muslim could be seen as an intentional move to maintain the government's neutral policy towards zakat.¹²¹

Although the president's personal effort thwarted the direct influence of MORA on zakat management, to a certain extent it had the effect of raising many people's awareness of the need to devise a better and more proper method of administering zakat. It also provided a first-hand example of the possibility of national collection in Indonesia through a personal project. The president has also indirectly inspired governors and higher officials at the provincial level to set up their own institutions for the benefit of local inhabitants.

When the president stopped his fund collection project in 1974, the existing BAZIS were left without a strong foothold since their main function was to help president to collect zakat fund. Since then they have had to struggle to remain in existence, relying totally on local support.¹²² By then it was clear that the government was not keen to help and should the process of enhancement be continued it must be from a societal level.

¹¹⁸ Salim, *Challenging the Secular State*, 122; Salim, "Zakat Administration", 184-185.

¹¹⁹ The annual collection from 1968-1974 was only about Rp25 million (USD 1500). See Salim, *The Shift in Zakat Practice*, 31.

¹²⁰ Salim, *The Shift in Zakat Practice*, 32, 74.

¹²¹ For further explanation pertaining to the possible Soeharto's motives refer: Salim, "Zakat Administration", 186-188.

¹²² Salim, *Challenging the Secular State*, 125; Salim, *The Shift in Zakat Practice*, 33; Abdullah, "Zakat Collection and Distribution in Indonesia", 60.

This dampening development, however, did not obstruct the enhancement of zakat in the country. With support from society, the zakat organizations continually flourished all over Indonesia. In the 1970s and 80s many BAZIS organizations were established such as in West Java (1974), South Kalimantan (1974), South Sumatra (1975), Lampung (1975), Irian Jaya (1978) and North Sulawesi (1985).¹²³ It should also be observed that, although the body was initially set up by government officials, the overall cost of the operation is still mainly financed by the collection. In this respect, local government only uses the existing apparatus to tap the zakat from society for the utilization of the local community, usually based on their respective contacts with local government.¹²⁴ The BAZIS must also survive and compete with other local non-governmental organizations. For example, BAZIS Sulawesi in the 1980s had to compete with more than 100 existing local personal agents or agencies scattered throughout its province.¹²⁵

In view of the lack of support from federal government, combined with the voluntary nature of contributions from society, it seems safe to suggest that the formation of BAZIS cannot be considered a top-down government initiative. It rather represents both driving forces, namely, strong support from society through non-governmental organization, plus awareness of it by the highest officials in authority, perhaps typifying middle-class society. Although some provincial government officials were undeniably involved in the formation of the zakat bodies, their effort was not formally recognized by the government. Furthermore, no zakat regulatory regime or system was introduced, showing that the government, especially after the withdrawal of the president's collection effort in 1974, no longer had any interest in the fund. Indeed, the act of collection by the president in a merely individual capacity rather than as head of government (1968-1974), together with the government's unconcerned attitude towards the fund afterwards, can be seen as an indirect means of distancing the government from the direct practice of zakat.

¹²³ Abdullah, "Zakat Collection and Distribution in Indonesia", 60; Salim, *Challenging the Secular State*, 125.

¹²⁴ For mechanisms of collection and distribution practiced by number of BAZIS in 1970-s and 80-s refer: Abdullah, "Zakat Collection and Distribution in Indonesia", 59-61.

¹²⁵ Abdullah, "Zakat Collection and Distribution in Indonesia", 60.

Ultimately, local populations and society as a whole have continually supported the management of zakat through non-governmental zakat bodies. In this respect, BAZIS agencies have used zakat for their administrative costs, like any other private collectors and unlike fully sponsored organizations which would expect to be financed by the government. Eventually, the Muslim masses have made greater effort towards and had a more direct impact on the development of zakat, showing that the process of Islamization from below has been clearly more operative than the top-down force of government.

Besides the establishment of semi-autonomous organizations, there were also an increase in discussions, seminars, surveys and personal experiments pertaining to the zakat administration. Among the central themes discussed were jurisprudence governing zakat, structural organization and the potential role of zakat in community development.¹²⁶

A seminar held in Jakarta in 1975 for example, surveyed the opinion of scholars and intellectuals concerning zakat. It was found that the majority of respondents considered zakat not only as a religious obligation but more as *'ibāda ijtīmā'iyya* (a religious social obligation). To ensure that the fund would benefit Muslim society, they therefore preferred it to be managed by an efficient organization set up for the purpose, ideally a national *Baitulmal* (national treasury) or zakat agency. Apart from that, the respondents chose to use zakat for productive rather than consumptive purposes.¹²⁷

Another workshop organized in Jakarta later in 1981 clearly demonstrated the Indonesian scholars' position on the duty against a background of modern circumstances. In this seminar, they adopted a clear legal stance according to which zakat is a dogmatic regulation to be rationally deliberated upon. From this perspective, *ijtihad* is much needed when addressing a matter not clearly settled in the Quran and hadith.¹²⁸

In a similar vein, a seminar held in 1986 by a *pesantren* (Indonesian religious boarding school) coordinated body reached a commonly held conclusion. Rooted in

¹²⁶ Abdullah, "Zakat Collection and Distribution in Indonesia", 51.

¹²⁷ Abdullah, "Zakat Collection and Distribution in Indonesia", 54.

¹²⁸ Abdullah, "Zakat Collection and Distribution in Indonesia", 53.

the spirit of *ijtihad*, the most urgent task, according to the participating scholars, was to formulate a zakat system taking changing social realities into consideration but without abandoning the spiritual value of zakat as religious act. Accordingly, the goal of zakat was to transform recipients into payers. They also believed that the traditional practice of distributing zakat merely for consumption must be reviewed and the focus placed on productive purposes. Zakat was thus seen as an integral part of development programs.¹²⁹

There was also a survey held by *TEMPO*, an Indonesian magazine in 1988, to find what Muslims think about zakat. According to the survey, the majority of respondents (which possibly its readers) were of the opinion that the government should involve in the fund management. Since zakat is seen as a means of eradicating poverty, the majority (43%) thought that zakat should be used for productive purposes. Only 25% believed that the traditional disbursement (to the mosques, orphans, etc.) should be continued.¹³⁰

Through these seminars and surveys, it was clearly seen that scholars and also general Muslims during this era tried to associate the duty with economic development. It was suggested that zakat could be used as community development mechanism which in many cases, as earlier considered, income generation was among the ideas commonly proposed. As the effort from the president has ended in 1974, and the seminars and surveys only appeared after that, it could be understood that the government had no influence on it.

In the regard of zakat disbursement for income generation, there were a number of experiments begun in the 1980s. For example early in the decade, a professor of economics and influential Islamic scholar, carried out an experiment by distributing zakat, collected by himself, to fishermen and street vendors in his locality. The distribution was in the form of borrowed capital, enabling them to start small-scale income-generating activities. After a few years he found that the distributed capital failed to help fishermen, but that the program was very successful

¹²⁹ Abdullah, "Zakat Collection and Distribution in Indonesia", 53.

¹³⁰ Abdullah, "Zakat Collection and Distribution in Indonesia", 54.

with the street vendors. Unlike the fund lent to the fishermen, which was left never repaid, the fund borrowed by street vendors was fully repaid.¹³¹

Another case was reported in Gontor, in the eastern part of Java Island, in which the Pesantren of Gontor (Islamic Boarding School of Gontor) established by Kiai H. Zarkashi used zakat money to set up a women's cooperative. The impetus behind this measure was the fact that the huge number of students, up to 3000, with monthly expenditure of up to Rp 75 million, could potentially profit by such a business enterprise. The pesantren, which had a close relationship with the local people, also used some portion of zakat money collected from former graduates throughout the country to finance several cottage industries for the assistance of the local poor.¹³²

Similarly, BAZIS Jakarta disbursed capital support amounting to Rp 90.4 million in the form of loans, which comprised so-called productive funds for no fewer than 1700 beneficiaries in 1980/81. This program, however, was not very successful, with the number of recipients declining to 174 beneficiaries in 1984/85, and the distributed fund only amounting to Rp 54.2 million. The shortfall was due to unpaid loans, despite the initial intention that the fund should be a self-generating one that was expected to grow.¹³³ The BAZIS Jakarta later identified other factors contributing to the failure of the program, such as a lack of proper planning and of training and monitoring systems.¹³⁴

As a response to the above problems, beginning in the fiscal year 1985/86 BAZIS designed a new approach to the productive funds projects, giving top priority to successful beneficiaries and being highly selective in recruiting new candidates. In addition, the BAZIS channelled the fund collectively through other similar programs, in cooperation with various NGOs or the Lembaga Swadaya Masyarakat (Social Institute of Self Reliance).¹³⁵

¹³¹ Laporan Tahunan: Bidang Urusan Agama Islam, Kantor Wilayah Departemen Agama, Propinsi Sulawesi Selatan, 1984/1985, cited in Abdullah, "Zakat Collection and Distribution in Indonesia", 74.

¹³² Abdullah, "Zakat Collection and Distribution in Indonesia", 75.

¹³³ Abdullah, "Zakat Collection and Distribution in Indonesia", 71-73.

¹³⁴ Laporan Kerja BAZIS DKI Jakarta Periode Tahun 1986/1987 (Disampaikan pada rapat Puripurna Badan Pembina Bazis DKI Jakarta, 26 Maret 1987), cited in Abdullah, "Zakat Collection and Distribution in Indonesia", 72.

¹³⁵ Abdullah, "Zakat Collection and Distribution in Indonesia", 73.

These developments in the zakat institution in Indonesia during the 1970s and 1980s signified considerable change in the way zakat was perceived and practised. As is clearly shown, the change was sparked by several initiatives started by members of society, promising the continued existence of zakat organization although the government had stopped its commitment. The practice of zakat during this era was to a certain extent directed to achieving its objective of eradicating poverty in society. In this context, the zakat fund had been managed creatively and experimented in income generation.

Towards the end of the 1980s, zakat agencies in Indonesia were continually growing. A national seminar organized in 1986 encouraged the formation of privately based zakat organizations and was then highly endorsed by *Majlis Ulama Indonesia* (Indonesian Council of Muslim Scholars). Such an endorsement led to the emergence of zakat agencies sponsored by private companies such as the Bontang LNG Company, Pertamina, and Muslim community organizations including Dompot Dhuafa Republika, Pos Keadilan Peduli Umat and Yayasan Dana Sosial Al-Falah. By then the zakat agencies in Indonesia could be easily segregated into two major groups, Badan Amil Zakat (BAZ) for semi-government agencies and Lembaga Amil Zakat (LAZ) for non-state sponsored zakat agencies.¹³⁶

The establishment of many non-government organizations managing zakat funds in the country suggests that the societal effort initiated were gradually fruitful. The proliferation of agencies in later years led to greater pressure on the government to take more serious steps concerning zakat administration. Due to the nonexistence of a national agency in the country, in 1997 eleven BAZ and LAZ cooperatively formed the Forum of Zakat (FOZ). The FOZ played an important role in coordinating efforts, disseminating information and being consulted on various problems pertaining to zakat. In 1999 more than 150 organizations throughout the country joined the FOZ.¹³⁷

¹³⁶ Abdullah, "Zakat Collection and Distribution in Indonesia", 61;

¹³⁷ Salim, *The Shift in Zakat Practice*, 40; Salim, *Challenging the Secular State*, 127; Nirwan Nazaruddin, "Institusi Zakat dan Aplikasinya di Indonesia" Master Dissertation, National University of Malaysia, Bangi, 1999, 76-77; "Profil Forum Zakat", <http://www.forumzakat.net/index.php?act=latarbelakang> (accessed August, 25, 2011).

The most remarkable contribution of the FOZ was as a force for the formulation of zakat law in Indonesia. The zakat law was considered important for a number of reasons, among which was the need to increase the zakat collection in the country through greater levels of Muslim participation and religiosity. A higher zakat collection would enable the fund to be used for poverty eradication and social welfare. Another objective was to provide the legal foundation for a zakat agency in Indonesia and to establish such a national agency.¹³⁸

It is worth mentioning that since the demise of Suharto in 1998, Indonesia has become a fully democratic nation and Islamization of society has taken on a new momentum. This is not to say that the government has become more Islamic. For a government in which has been under a secular constitution and kept away from religion for more than 50 years, changing this stance would not be easy. Unlike under the previous regime, the effort to bring legal draft or to discuss religious matters, however, became possible.

Finally in 1999, after cooperating with MORA, the government approved a zakat bill.¹³⁹ After lengthy deliberation by the People's Consultative Assembly (Parliamentary meeting), however, the approved law seemed to be merely a guideline on zakat management, with its collection remaining voluntary in nature. The government was very careful not to include any words which could be seen as an attempt to make zakat obligatory, thus demonstrating that the government had no intention of forcing its payment.¹⁴⁰ In 2001, following the passing of the law, Badan Amil Zakat Nasional (BAZNAS) was formed as a national zakat collector, considered an umbrella to all zakat organizations. So far the formation was, however, similar to that of other zakat organizations, its job being to collect and disburse the fund rather than act as the parent zakat organization, in contrast to its earlier envisioned role.¹⁴¹

With the formation of zakat agencies constantly growing, the income generation programs have been continued by many organizations. Bazis Aceh, for

¹³⁸ Salim, *Challenging the Secular State*, 129.

¹³⁹ Salim, *Challenging the Secular State*, 128;

¹⁴⁰ For the detail account on the legislative process, refer: Salim, *The Shift in Zakat Practice in Indonesia*, 47-52.

¹⁴¹ <http://www.baznas.or.id/ind/?view=profile> (accessed, August 25, 2011)

example, offered income generation after a decision made during its 1997 workshop that the agency would place a greater focus on t hat than on c onsumptive disbursement. Bazis, through its Baitul Qirad program, gives recipients capital for income generation.¹⁴² Apart from that, it collaborated with the Bank Pengkreditan Rakyat Syariah (BPRS), a credit institution managing financial aid and loans for income generation. In this connection, Bazis channelled its collected fund to BPRS, who then distributed it to potential recipients, each of whom normally received between Rp 1,000,000 to Rp 2,000,000 in the form of a revolving capital loan. The BPRS also closely monitored the recipients' performance.¹⁴³ From the period of 1997 through 1999, Bazis, via Baitul Qirad and BPRS, spent approximately Rp 25,000,000. Although the initiative could be considered an early step for an agency employing such a mechanism, it was still small compared to what had been spent on other programs.¹⁴⁴

Many similar programs have been offered by non-governmental zakat agencies. Pos Keadilan Peduli Umat (Justice Post of Muslim Care or PKPU), for example, has introduced several programs such as integrated animal, fish and chicken husbandry and micro enterprises including a special program enabling street sweeper communities to start small businesses.¹⁴⁵ It was officially established as an independent foundation in December 1999 and received permission to collect zakat in 2001. As a zakat institution, PKPU has collected zakat and other charitable donations nationally and also has agencies located in many other countries.¹⁴⁶

Supardi, in his article, has briefly evaluated Kelompok Swadaya Mustahik Mandiri, the program through which PKPU gave zakat funds to street sweepers as business capital. Through this program, established in August 2004, each individual beneficiary was given business loans ranging from Rp 200,000 to Rp 400,000. They

¹⁴² Nazaruddin A. Wahid, "Agihan dan Manfaat Zakat Jasa (Gaji, Pelaburan dan Upah Kepakaran) Kajian Kes di Propinsi Aceh", Master Dissertation, National University of Malaysia, Bangi, 1999, 121-122, 124.

¹⁴³ Wahid, "Agihan dan Manfaat Zakat Jasa", 143.

¹⁴⁴ Wahid, "Agihan dan Manfaat Zakat Jasa", 124.

¹⁴⁵ Ahmad Mufti Salim, "Amalan Kutipan dan Agihan Zakat di Lembaga Amil Zakat Nasional Pos Keadilan Peduli Ummat (PKPU) Indonesia", Master Dissertation, National University of Malaysia, Bangi, 2004, 46.

¹⁴⁶ Salim, "Amalan Kutipan dan Agihan Zakat", 41-42; Dede Rusdiana and Zaim Saidi, "Indonesia", Paper Presented in Seminar of Diaspora Giving: An Agent of Change in Asia Pacific Communities, Asia Pacific Philanthropy Consortium, Hanoi, 21-23 May 2008, 169.

were also provided with training during biweekly meetings. Although the program has been running for many years, its effectiveness is still questionable.¹⁴⁷ Based on Supardi's basic research, many problems have been indicated which hinder its effectiveness, such as insufficient loans and ineffective training and monitoring systems.¹⁴⁸ In addition, the PKPU, according to Supardi, was not transparent to the academic communities, any attempt to evaluate such a program being usually unwelcome.¹⁴⁹ This is why he did not offer any specific findings regarding the extent to which the program has achieved its objectives, but only briefly suggested that, although the program provides an opportunity to give the recipients extra income, it is still far from successful in turning the recipients into payers.¹⁵⁰

Dompot Dhuafa Republika (DD) is another private agency, which has collected zakat since 1993. It was set up by a group of journalists from the Indonesian magazine Republika to help unfortunates in the country.¹⁵¹ The agency is one of the leading organizations that helped to establish the Forum of Zakat.¹⁵² As regards income generation, the DD since 2000 has promoted the initiative through its autonomous agency Masyarakat Mandiri (MM). Supported mainly by DD contributions, MM has offered many programs of income generation. Covering more than 12 provincials all over Indonesia, MM and its partners, including many private companies, have individually or cooperatively offered entrepreneurial programs to empower the poor and needy.¹⁵³ In 2010 alone, MM spent more than Rs 3 trillion (approximately 350,000 USD), drawn mainly from DD, for more than 15 types of income generation program. In rural areas, the focus has been on programs such as agriculture and farming, while in urban areas, MM concentrates on small businesses, with the aid given to the poor being extended to unemployed youth.¹⁵⁴

¹⁴⁷ Supardi, "Zakat Organization and Poverty Alleviation (A Macro Social Work and Community Development Perspective)" Synopsis Paper for Master Dissertation, State Islamic University Sunan Kalijaga, Yogyakarta, 2005, 4-5.

¹⁴⁸ Supardi, "Zakat Organization And Poverty Alleviation", 5-10.

¹⁴⁹ Supardi, "Zakat Organization And Poverty Alleviation", 10.

¹⁵⁰ Supardi, "Zakat Organization And Poverty Alleviation", 5-6.

¹⁵¹ "Sejarah DD", <http://www.dompetdhuafa.org/dd.php?x=tentangdd&y=4015522cd0c760> (accessed January 8, 2010).

¹⁵² Salim, *The Shift in Zakat Practice*, 40.

¹⁵³ "Masyarakat Mandiri", <http://www.masyarakatmandiri.org/?mod=about> (accessed July 30, 2011); "Tentang Kami", http://www.masyarakatmandiri.org/?mod=about_tab-1 (accessed July 30, 2011).

¹⁵⁴ Masyarakat Mandiri, Laporan Penggunaan Dana Periode 1 Muharram- 30 Jumadil Akhir 1431H; Masyarakat Mandiri, Laporan Penggunaan Dana 1 Ramadhan 1431- 1 Muharram 1432H;

Besides the above-mentioned agencies, modern *pesantren* based zakat agencies have also been active in distributing zakat for income generation. Dompot Peduli Ummat Daarut Tauhiid (DPU-DT), an agency under the modern *pesantren* Daarut Tauhiid, has been one of the national LAZ since 2000.¹⁵⁵ Since 2002, DPU-DT has focused on income generation programs, which have received the greatest portion of its zakat disbursement.¹⁵⁶ Its main program, Misykat, is a microfinance initiative, giving revolving capital from the zakat fund to any poor people who might become involved in various economic activities, including small-scale trade, farming, cottage industries, and many others.¹⁵⁷ The distribution is also accompanied by technical and advisory assistance. In 2010, of what had been collected from zakat, it appeared that the Misykat program received a considerable portion, more than Rp 800 million, although the DPU-DT runs almost 20 other programs for poor and needy alone. This large apportionment could indicate the agency's aspirations for the direction of zakat disbursement.¹⁵⁸

It is difficult to determine how well income generation programs have performed throughout the country; specific research into that question is needed. As the purpose of this section is to understand the direction of the process by which the role of zakat has been extended, it suffices to suggest that in many ways the direction is from below. The large number of zakat bodies has led the organization to do whatever is required to suit local needs, depending on the availability of the fund.

Up to this point, we could conclude that zakat management in Indonesia and its development have been much influenced by the societal initiative. The government role in the development and administration of zakat was comparatively limited. Islamic scholars and local intellectuals play a significant role by constantly propagating the masses and suggesting the better use of zakat through seminars and

<http://www.masyarakatmandiri.org/?mod=program&show=listprogram tab-2> (accessed August 25, 2011); <http://www.masyarakatmandiri.org/?mod=program&show=listprogram tab-3> (accessed August 25, 2011).

¹⁵⁵ <http://www.dpu-online.com/index.php?profile/detail/0/12/profile-12.html> (accessed September 1, 2010); <http://www.dpu-online.com/index.php?profile/detail/0/13/profile-13.html> (accessed September 1, 2010).

¹⁵⁶ "Menuju Pemberdayaan Zakat yang Produktif dan Solutif", *Swadaya*, 66/2008, 10.

¹⁵⁷ "Peduli Kaum Hawa, Berdayakan Muslimah" *Swadaya*, 68/2008, 12.

¹⁵⁸ The distribution sum is roughly obtained from monthly financial report published in DPU-DT official magazine, *Swadaya*. Please refer *Swadaya*, various issues.

personal experiments. Income generation through zakat in this case has been the societal initiative to use zakat as a local level development approach for poverty eradication.

4.3.2 New *ijtihād* for income generation through zakat

As mentioned above, Indonesian scholars have warmly welcomed the utilization of zakat for productive purposes and development in general. The positive attitude towards the initiative was evident when a number of scholars approached Soeharto in 1968 and suggested that zakat be associated with national development. In addition, Indonesian scholars, despite differences in doctrinal and ideological orientation, seem mostly to adopt a moderate stance. In an opinion survey of religious scholars and intellectuals regarding zakat, conducted in Jakarta in 1975, the respondents preferred to use zakat for productive rather than consumptive purposes. Since they view zakat as an '*ibāda ijtīmā'iyya*' (religious social obligation), the practice must accord with current needs, in relation to which zakat, as a dogmatic regulation, should be rationally considered by means of *ijtihād*, in any aspect regarding which no clear discussion is found in the Quran and hadith.¹⁵⁹

From the views of the majority of scholars, it can be clearly discerned that Indonesia, unlike Pakistan, does not hold strongly to the classical view of *madhhab*. In making their decision, amidst the stance of being freely open to any potential suggestion from modern scholars, the classical opinion from Shāfi'ī, as the most popular *mahdhab* in the country is still taken into consideration.

Perhaps we could briefly survey the classical opinion of Shāfi'īs regarding zakat distribution for income generation. As mentioned in the previous case, the majority of classical scholars including Shāfi'īs opine that zakat must not be spent on a rich person.¹⁶⁰

Slightly critical in their explanation, some Shāfi'ī scholars such as al-Shīrāzī and al-Nawāwī, however consider that an able-bodied person who does not have a stable income due to unemployment or loss of trade could be given zakat to help them recover. The recipients, in this case, are not considered rich. Al-Nawāwī

¹⁵⁹ Abdullah, "Zakat Collection and Distribution in Indonesia", 53-54.

¹⁶⁰ al-Nawāwī, *Kitāb al-Majmū'*, 171 ; al- Shāfi'ī, *Kitāb al-Umm*, 189 ; al-Bājī, *Kitāb al-Muntaqā Sharh Muwatta'*, 155.

considers that a person is only rich when he can meet the expenses of his lifestyle, including food, clothing and shelter to which he and his dependants are accustomed from his lawful property distributed over the average lifetime or from his lawful earnings.¹⁶¹ On top of that, al- Nawāwī also says in his commentary on the al-Shīrāzī's work:

A craftsman would be given an amount sufficient to buy tools and equipment that allow him to work and gain his sustenance. This certainly differs according to time, country and ability of the individual concerned. Some of our colleagues give examples that a person who sells vegetables might be given five or ten *dirhāms*, while a person whose profession is selling jewels might be granted ten thousand *dirhāms* (translated)...¹⁶²

In sum, the classical Shāfi'ī scholars appeared to have no objection to the effort to disperse zakat fund for productive purposes.

The affirmative view in the *madhhab* has to a certain extent induced Indonesian scholars to suggest income generation. For example, Indonesian Council of Muslim Scholars in February 1982 produced a ruling on zakat for productive activities such as giving the poor necessities for trading and agricultural activities. In this case, the council based their opinion to the classical Shāfi'ī jurists namely al-Nawāwī and al-Bayjūrī who, as mentioned above, suggested the use of zakat for productive purposes.¹⁶³

Furthermore, Nahdatul Ulama, at its 28th general meeting in November 1989, approved the productive use of zakat. It is worth mentioning that the organization which is among the biggest Islamic organization in Indonesia is popularly known as a strong Shāfi'ī follower. In making the decision, the meeting referred not only to the classical but also modern views of zakat. As for the classical, similar to the Council of Muslim Scholars, al- Nawāwī's view has been based upon. The organization also based their decision on the modern scholar, namely Yusuf al-Qardawi through his popular book *Kitab al-Zakah*. Al-Qardawi in this case, was also cited by the meeting,

¹⁶¹ al-Nawāwī, *Kitāb al-Majmū'*, v6, 172.

¹⁶² al-Nawāwī, *Kitāb al-Majmū'*, v6, 169.

¹⁶³ "Mentasharufkan Dana Zakat untuk Kegiatan Produktif dan Kemaslahatan Umum" in Himpunan Fatwa Majelis Ulama Indonesia (Collection of Fatwa by Indonesian Ulama Council) obtained from http://www.mui.or.id/index.php?option=com_docman&task=cat_view&gid=66&Itemid=73&limitstart=15 (accessed August 25, 2011).

and was of the opinion that zakat could be used for productive initiatives such as developing business and factories for poor. The meeting however reminded members that all of the initiatives must be carefully planned and clearly informed of the recipients. Basing also to the al- Nawāwī's opinion, such initiatives must be carried out with the recipients' full agreement.¹⁶⁴

Although the affirmative *fatwā* by Nahdatul Ulama was unsurprising since the majority of classical Shāfi'ī scholars are in favour of the disbursement, the fact that Nahdatul Ulama itself has moved away from the principle of *taqlīd* (imitation) to the employment of *ijtihād* is evident. This is perhaps why, as we will see later, they also affirm the use of zakat for other community interests such as building mosques and schools, despite the negative view of the majority of classical jurists. The shift was further confirmed by the official decision of its 1992 National Conference, held in Lampung, that *ijtihād* was the recognized methodology of Nahdatul Ulama.¹⁶⁵

As briefly shown through the above *fatwā* and meetings, we can see that apart from the influence of classical Shāfi'īs, it is also clear that modern opinion also has been incorporated into the Indonesian legal decision. Indeed, modernist thinking has indeed been entrenched in the society. Such an inclination towards a modern view is actually something not uncommon in Indonesia. The country houses the modernist organization, Muhammadiyah, which is among the largest Islamic organizations, with 28 million members nationally. The organization was founded in early 20th century as a religiously motivated social and educational organization and has been issuing religious rulings for its members.¹⁶⁶ The income generation through zakat is something that is clearly encouraged by this organization. The case of productive project in Pesantren of Gontor earlier reported for example is among the project could be possibly linked to this organization.

It is worth briefly explaining how religious rulings are arrived at in Indonesia. Indonesia does not have an official *muftī* (expounder of Islamic law) who acts as highest interpreter of the law. The way a *fatwā* (religious ruling) is issued is

¹⁶⁴ "Produktifitas dan Pendayagunaan Harta Zakat", http://www.nu.or.id/page.php?lang=id&menu=news_view&news_id=8203 (accessed December 24, 2009)

¹⁶⁵ Nico J. G. Kaptein, "The Voice of the 'Ulamā': *Fatwas* and Religious Authority in Indonesia", ISEAS Working Paper, No. 2, 2004, 8.

¹⁶⁶ Kaptein, "The Voice of the 'Ulamā'", 8.

normally through discussion and collective decision-making incorporating many Islamic organizations, particularly Indonesian Council of ‘Ulamā, Nahdatul Ulama and Muhammadiyah. Each organization also has hundreds of branches throughout the country which do not necessarily agree with each decision made by the parent organization. They could vary along with other branches or organizations instead.¹⁶⁷ Without a state *mufthi* and active involvement from the state apparatus, the *fatwā* in Indonesia is usually various and voluntarily followed without powers of enforcement.

A more recent discussion concerning the opinion of religious scholars in Aceh also indicated that, according to the majority, the distribution must be based on productivity and development. Nazarudin A. Wahid in 1999, held brief interviews with a number of ‘*ulamā* in Aceh, including religious scholars from *pesantren* and lecturers from local universities, pertaining to zakat practice in Aceh.¹⁶⁸ The majority of the interviewees had no objection to distribution for productive purposes. Religious scholars from *pesantren* unanimously agreed that distribution for income generation is better in circumstances in which consumptive needs have been completely fulfilled. They refer to classical opinions which confer approval on the use of zakat to help the recipients acquire tools and other necessities of their professions.¹⁶⁹

This view was shared by a number of academicians from local universities in Aceh who, besides being in favour of productive distribution, suggested that the initiative should be combined with continuous monitoring and appropriate skill development.¹⁷⁰ Apart from the suggestion as to how the distribution should be improved, no objection by the academicians regarding the practice of BAZIS was reported by Wahid.

From what we can observe, the religious scholars from *pesantren* normally confined their opinions to the classical literature, as a result of which they sometimes found it quite difficult to accept all new practices. One example given by Wahid is a

¹⁶⁷ Nadirsyah Hosen, “Fatwa and Politics in Indonesia”, in *Shari’a and Politics in Modern Indonesia*, ed. Arskal Salim and Azyumardi Azra (Singapore: Institute of Southeast Asian Studies, 2003), 169.

¹⁶⁸ Wahid, “Agihan dan Manfaat Zakat Jasa”, 83, 95.

¹⁶⁹ Wahid, “Agihan dan Manfaat Zakat Jasa”, 87-89.

¹⁷⁰ Wahid, “Agihan dan Manfaat Zakat Jasa”, 101.

small variation in the *pesantren* scholars' opinions. Regarding the use of loans for the distribution, a scholar was reported as stating clearly that this was not acceptable because of ownership principle was not fully observed. According to the respondent, the zakat agency accordingly has no right to take back funds once they have reached the recipients.¹⁷¹

Regarding this, it is worth mentioning again the discussion about the principle of ownership in classical literature. As mentioned in the case of Pakistan, the majority of classical scholars are indeed concerned over the fulfilment of the ownership principle. In this case, Ḥanafī is found to be the strictest *madhhab* as the principle must be observed all the time by all recipients. The Shāfi'ī, together with other *madhhabs* namely Hanbali and Maliki on the other hand, are of the opinion that perfect ownership might not prevail all the time. As could be referred to the distribution verse (9:60), it is clear that instead of the usage of the preposition “*li*” for some eligible recipients, the other half of the recipients have been mentioned using the preposition “*fi*”. The different preposition used for the second group of beneficiaries, namely slaves, debtors, those in the way of God and wayfarers, signifies that the principle might not necessary applied to them.

If we look carefully into the discussion, all the *madhhabs* including the Shāfi'ī s however did not exempt the poor and needy from the ownership principle (proposition “*li*” is used for them). In this context, the utilization of zakat as a loan for the poor is something clearly contradicted by the classical requirement even from the Shāfi'ī point of view as they will not have complete ownership due to the need to return the fund received to the zakat body.

The negative opinion of the zakat loan, as expressed by this *pesantren* scholar, was, however, not widely shared by the others. Such a mechanism has been widely used in Indonesia as early as the 1980s, Abdullah personally citing it as the most important innovation in zakat administration during that period.¹⁷² Despite the mechanism's extensive implementation by various agencies, no specific *fatwā* against it has ever been produced, particularly by popular religious organizations. It

¹⁷¹ Wahid, “Agihan dan Manfaat Zakat Jasa”, 88.

¹⁷² Abdullah, “Zakat Collection and Distribution in Indonesia”, 74.

seems that the method is generally acceptable within the broad concept of productive disbursement.

Nevertheless, the issue has been discussed by individual *‘ulamā*. For example, Didin Hafidhudin, a local scholar and also BAZNAS president, has briefly dealt with this issue. According to him, the zakat fund is better spent on as many recipients as possible. On that principle, in the event that the fund is limited, it could be loaned so as to be utilized by more recipients.¹⁷³ In a seminar on zakat in June 2003, he further clarified the issue to the effect that, although the fund is only lent to the recipients, it is legally owned by them and no longer belongs to the zakat body or the payer. He added that the distributed fund in this regard does not, however, belong to a specific poor individual, but instead is collectively owned by many recipients. Thus, the earlier recipients should return the money to be utilized afterwards by the rest.¹⁷⁴ Given the clear argument of Hafidhuddin, it can perhaps be safely inferred that, in the view of Muslim Indonesia, a loan from zakat is acceptable on the grounds that it is perceived as an element of productive disbursement, with the fund being collectively owned by many rather than belonging to any specific individual.

From this brief discussion, it seems that the ownership issue has never been a serious problem in Indonesia, by contrast with Pakistan. It is normal practice in Indonesia that the disbursement of zakat is given to institutions and to build mosques, not necessarily given to individuals. The president himself, during the time when he was personally in charge of the collection and distribution (1968-1974), spent the greater part of the collection on welfare institutions and building mosques. Besides that, many mosques in Jakarta were also built mainly from zakat money.¹⁷⁵

In fact such a distribution has been approved by Nahdatul Ulama and the Indonesian Council of Muslim Scholars in their decision made respectively in 1981 and 1982. In both decisions, the organization has incorporated both classical and modern opinions in which zakat affirmatively can be used for society interest and welfare under the broad definition of in the way of Allah (*fī sabīl allāh*). After all,

¹⁷³ Didin Hafidhuddin, *Islam Aplikatif* (Jakarta: Gema Insani, 2003), 246.

¹⁷⁴ “Kontroversi Seputar Peminjaman Zakat”, <http://www.pkpu.or.id/artikel.php?id=9&no=13> (accessed December 21, 2009)

¹⁷⁵ Abdullah, “Zakat Collection and Distribution in Indonesia”, 56.

Muslim scholars appeared to be flexible in determining the legal decision in accordance to their societal background and necessities.¹⁷⁶

Indeed, Muslims in Indonesia are free to hold plural opinions. If we found that Nahdatul Ulama lean more towards tradition, holding rather tightly to *Madhhab*, especially Shāfi'ī, while Muhammadiyah tend to be rather modern in their approach, there are also a number of scholars who go beyond the boundaries of both groups. These scholars endorsed logical reasoning in their thinking, which could lead to decisions far different from those of any other scholars, whether modern or classical. Since their mode of judgement is akin to that of the *mu'tazila* – a school of theology based on rationalism which flourished during the Abbasid era in Baghdad and Basra – writers normally refer to them as neo-muktazilites.¹⁷⁷

In Indonesia, these thinkers normally call themselves the *golongan pembaharuan* (reform faction). Harun Nasution, for example, claimed in the 1960s that it is not compulsory for Muslims to hold tightly to hadith. This is because he viewed the hadith as not having been collected or well documented during the life of the Prophet, but as merely relying on the memory of companions. He then suggested, as a logical consequence, that the lapse between the time of the Prophet and the time of its documentation had possibly compromised its authenticity. As a result, he eventually asserted that Muslims must only rely on the Quran and reject hadith as a credible source of law in Islam.¹⁷⁸ In addition, Harun Nasution contended that Muslims should no longer believe in the *qaḍā'* and *qadr* (divine preordainment) – a principle of religion without which one's faith could be open to serious doubt – as, according to him, such a belief could result in Muslims being underdeveloped and backward.¹⁷⁹

¹⁷⁶ “Zakat untuk Lembaga Sosial” http://www.nu.or.id/page.php?lang=id&menu=news_view&news_id=9310 (accessed December 24, 2009); “Mentasharufkan Dana Zakat untuk Kegiatan Produktif dan Kemaslahatan Umum” in Himpunan Fatwa Majelis Ulama Indonesia (Collection of Fatwa by Indonesian Ulama Council) obtained from http://www.mui.or.id/index.php?option=com_docman&task=cat_view&gid=66&Itemid=73&limitstart=15 (August 25, 2011).

¹⁷⁷ Daud Rasyid, *Pembaharuan Islam dan Orientalisme dalam Sorotan* (Jakarta: Usamah Press, 2003), 25.

¹⁷⁸ Daud Rasyid, *Fenomena Sunnah di Indonesia* (Jakarta: Usamah Press, 2003), 20-21.

¹⁷⁹ Rasyid, *Pembaharuan Islam*, 24.

Another such figure is Nurcholis Madjid, an intellectual who has been an active proponent of modernization within Islam since the 1970s, following completion of his PhD in America. Some of his opinions can be considered controversial in Indonesia. In the early 1990s, for instance, he claimed that women do not have to cover their hair, as it is not considered a part that must be concealed. He regarded the *jilbab* (known as headscarf in Indonesia) as merely symbolic, having no religious significance.¹⁸⁰ In the case of Muslim marriage, he also would allow religious intermarriage, with Muslims permitted to marry non-Muslims. Commenting on the fact that such a marriage is clearly prohibited in the Quran, he argued that the prohibition merely referred to the non-Muslims of the Prophet's time and did not prohibit present-day Muslims from marrying non-Muslims.¹⁸¹ Besides this, he was averse to Muslims holding firmly to any *madhhab*, even daring to claim that *madhhab* was a factor in Muslim backwardness. In this context he bravely accused al-Shāfi'ī – as a founder of a *madhhab* – of contributing to the underdevelopment of *fiqh* when proposing his methodology of *uṣūl al-fiqh* (the methodology of deducing religious rulings), since, according to Madjid, it limited the use of personal reasoning.¹⁸²

As far as zakat is concerned, here too some modifications have been suggested by the reform faction. Another controversial opinion related to zakat was advanced, also in the early 1990s, by Masdar F. Mas'udi, a scholar whose ideological inclinations resemble those of Madjid. He suggested replacing zakat with a secular tax. Mas'udi, in this respect, maintained that those who had paid state taxation (collected by government) were not obliged to pay zakat, since the tax paid was intended (*diniatkan*) as a zakat payment. He based his claim on the similar objectives of zakat and taxation, in that both are used for the welfare of society. If the taxation collected by the state can fulfil that objective, he argued, then let the state handle the collection.¹⁸³ This opinion is indeed far removed from that of the majority of scholars in Indonesia. In 1988, for example, Majelis Ulama Indonesia (MUI)

¹⁸⁰ Rasyid, *Pembaharuan Islam*, 52-53.

¹⁸¹ Rasyid, *Pembaharuan Islam*, 69-70.

¹⁸² Wan Zahidi Wan Teh “Kertas Gerakan Islam Liberal di Indonesia dan Kaitannya Dengan ESQ”, Research Paper produced by Jabatan Mufti Wilayah Persekutuan, 2010, 25.

¹⁸³ Salim, *The Shift in Zakat Practice*, 36.

affirmed that zakat and tax were different duties, both of which Indonesian Muslims were obliged to pay. The reasoning underlying this view is that zakat is a religious duty mandated by God through the Quran and Sunnah, while tax is a duty established by the nation state.¹⁸⁴

If scholars of this faction could go so far as to equalize zakat with tax, the use of the fund for generating income would pose no problem at all for them. That this is actually the case was proved when Nurcholis Madjid, described that the fund is a mechanism of reducing economic disparity in society and could also strengthen their productive effort, a view unsurprisingly parallel to that of the majority of other modern Indonesian scholars.¹⁸⁵

In light of the above discussion, it is clear that the opinions of the faction go well beyond the parameters of most scholars. These scholars, in presenting their opinions, use purely personal reasoning without referring to the Quran and Sunna, sometimes even going against clear stipulations of the Quran – as exemplified by Madjid's view. In addition, the rulings are produced without systematically following the *qawā'id al-fiqh* (legal maxim, or the specified way of reaching a verdict). If the modern scholars, as discussed in an earlier chapter, such as Rashid Rida and Muhammad Abduh, merely urged reconsideration of rulings regarded as *mu'āmala*, they could go further with their new rulings which include *'ibāda* and *'aqīda* (theology). Although up to now there has been no report that they have attracted a large number of followers, as compared to other popular Islamic organizations in Indonesia, they have plainly set a trend whereby logic exerts a key influence on religious opinion.

In conclusion, throughout the section we could suggest that the institutionalization of zakat in Indonesia is mainly bottom-up process of Islamization, in which the steps have been dominated by local activists and scholars for the their community's wellbeing. Amid the limited support from the government, especially throughout the era of the second president, non-government zakat institutions were established and continuously supported by local society. In the

¹⁸⁴ Salim, *The Shift in Zakat Practice*, 35.

¹⁸⁵ Budhy Munawar-Rachman, *Ensiklopedi Nurcholis Madjid* (Jakarta: Democracy Project, 2012), 3634, 3636.

democratic atmosphere following the Soeharto regime, the zakat agencies through FOZ have urged the government to be more proactively involved in zakat. With regard to collection, they call for strict regulations and making zakat payment obligatory so that the collected fund might be considerably increased.

As far as the zakat disbursement is concerned, productive disbursal is a process of improvement, by which zakat agencies with limited funds must do what is required to improve the community's wellbeing. Income generation, therefore, can be seen as a manifestation of the Islamization process in society by which zakat is gradually incorporated within societal development and poverty eradication.

Indonesia's voluntary zakat actually creates a huge space in which society can introduce better collection and distribution methods according to their needs and requirements. As such, it is up to the payers to submit their payment according to their beliefs and individual preferences. Accordingly, the zakat agencies must compete with each other to attract more payers through the "soft" approach of propagation. They must also go to great effort to improve their management and prove that they can help the masses through their disbursal mechanisms. This is the reason why, it is not uncommon to see a minuscule sum having to be shared among recipients through a revolving fund. In the end, only the most impressive, productive and efficient organization will prevail.

As far as legal discussion is concerned, Muslim in Indonesia do not strictly adhere to a particular school of law. Scholars have freely considered all potential opinions combining modern and classical according to the need of society. There are also group of scholars who hold on rationalism in their judgement. Indonesian society also seems tolerant of various viewpoints, allowing people to choose any organization that suits their personal faith. At the same time, the agencies, to attract payment, can reciprocally adapt their mechanisms to the needs and requirements of the local society. Ultimately, society can determine its own means of collection and disbursement according to its own barometer, without the imposition of an exclusively accepted, standard definition of Islam.

Zakat law in Indonesia, after all, still does not require people to pay zakat but merely encourages them to pay to the zakat agencies rather than personally donating

to the beneficiaries.¹⁸⁶ According to some researchers, the law has also not increased fund collection in Indonesia.¹⁸⁷ It is difficult to judge where the process of Islamization will go and what it might possibly achieve. There is a long way to go to the completion of such a process, and its outcome also will depend on the current government's decision whether to co-opt or resist it.

4.4 Conclusion

The general improvement of zakat administration and, in particular, the introduction of income generation is an impact of the Islamization phenomenon in Muslim countries. The process of Islamization, can be sparked by government as well as society. In this case, both parties want to use zakat as a development tool beyond its original role as simply a personal religious duty.

As discussed in the chapter, Pakistan has actively instigated government Islamization in many aspects of governance including economics, law and education. In this aspect, the country has made a commitment to establish a “truly” Islamic state. As part of the Islamization policy introduced by the president Zia ul Haq, zakat was embraced by the government as part of its taxation system in which the government established centralized zakat management. Zakat since then has been compulsory for every Muslim with a minimum amount in their personal account from which the payment will be directly taken. The fund was intended to eradicate poverty in the country and income generation is among the efforts begun to improve the disbursement system.

Despite the strong pressure from above, the Pakistan zakat system it seems, does not always run smoothly as some Pakistani people are apparently not willing to pay. Consequently, the collection has not been very satisfactory, and this has hindered the achievement of more effective distribution.

As far as the legality is concerned, the section has further discussed the process of legal interpretation in Pakistan. As a state which holds tightly with Ḥanafī

¹⁸⁶ Alfitri, “The Law of Zakat Management and Non-Governmental Zakat Collectors in Indonesia”, *International Journal of Not-for –Profit Law* (8)(2) (2006): 61; Salim, *The Shift in Zakat Practice*, 62.

¹⁸⁷ Salim, *The Shift in Zakat Practice*, 62.

madhhab, the scholars opined that the concept of ownership must be observed all the time, to a certain extent limiting the zakat from freely being disbursed for income generation. To resolve this legal problem, the state has introduced a mechanism in which the zakat has been supplemented by a state fund through the establishment of a zakat foundation. In all, the implementation of income generation through zakat in Pakistan is seen as a part of government effort in fulfilling its dream to establish an Islamic governance.

In the second part of the chapter, the Indonesian case displays the robust energy of an Islamization process issuing from society. In Indonesia, the society itself has initiated a fuller collection of zakat after their efforts to persuade the government to improve the fund administration was unfruitful. The country, and at times even the president himself, while persuading people to pay their due, has still tried to keep the administration of the zakat free from government influence or coercion. The collection and distribution of zakat in the country has been based on societal initiatives without a strong commitment from the government. Zakat organizations therefore compete with each other in order to survive as they are more than enough in number. The distribution and collection mechanisms, including the implementation of income generation programs, depend on the creativity and commitment of local institutions. After all, although there has been a slight change in government attitude towards zakat since the demise of the authoritarian president at the end of 20th century, the nature of the fund is still voluntary.

Unlike in Pakistan, in Indonesia, judicial issues have not seemed to hinder the implementation, since interpretation has rested with local scholars who are free to make decisions on the basis of local interest. There is no single official interpretation of law in this country. Such a freedom in interpretation is unsurprising since the state has a neutral attitude towards religion. Looking at the pattern of Islamization in the country, the introduction of income generation is a societal initiative which eventually challenge the government's stance towards religion.

Based on the two cases, it is clear that both types of Islamization offer their own advantages and challenges. Each approach to Islamization has in a way shaped the distribution and collection patterns as well as affecting the way religious rulings

are determined. In order to achieve an effective zakat management system, both “top-down” and “bottom-up” approaches should be concurrently in place. The government involvement needs to be planned and carefully implemented to reduce resistance from society. Coercive power by the government seems will be misperceived by society as merely political motivated. Society also needs to take part. Indonesian society for example has strived hard to ensure the fund is used for their benefit. In both cases the fund has played its role beyond religious duty, proving that the duty is adaptable in the modern world.

CHAPTER 5

ISLAMIZATION AND ZAKAT PRACTICE IN MALAYSIA

5.1 Introduction

Zakat has a special place in Malaysian economics. Realizing its economic potential, the government has promoted an atmosphere increasingly conducive to the institution's development. This chapter aims to discuss the development of zakat, featuring its enhanced role in the country's economy. It is clear that the institution was initially a religious tradition, with the fund collected on behalf of particular rulers. The Islamization phenomenon, has led the government to become more accommodating towards Islam. By fostering greater awareness of religion, the phenomenon also impelled society and, later on, government to perceive zakat as a tool for resolving economic problems. Eventually, the zakat institution evolved to incorporate economic aims beyond its religious function.

This chapter comprises five sections altogether. In order to give a clear picture of how the Malaysian socio-political and economic system works, the first part of the chapter will deal with the overall background to the nation's economy and form of government. Overall, Malaysia is a secular democratic country containing a multiracial community.

The next part discusses the dynamic of Islamization in the nation, a phenomenon which has taken place since the 1970s. In this period, there was a proliferation of religious movements and of Islamic awareness in society, creating a demand that the ruling government show more concern for Islam.

As a reaction to the growth of Islamization among the people, the government increasingly favoured the religion by establishing Islamic institutions and co-opting religious leaders. It was not, however, the government's intention to establish an Islamic state but rather, through Islamization in Malaysia, to improve the social and economic conditions of Muslims.

As we look into previous cases, we can see that Islamization in Malaysia has taken a slightly different form from that in Pakistan and Indonesia. Apart from the

Islamization pattern in the country being a mixture of social and governmental aims, Malaysia generally did not fulfil the demand of religious movements that the state become Islamic on the model of Pakistan. On the other hand, neither did the state follow Indonesia by totally rejecting all elements of religion in politics. Malaysia in this respect could perhaps be seen as accommodative secular state.

In the third section, the development of the zakat institution in Malaysia will be elaborated on. Formed earlier in the twentieth century, as a result of the shrinking power of the Sultan, the zakat institution prior to the Islamization period was a merely religious one. After Islamization, society called for a better use of zakat. The institution acquired a broader perspective which encompassed development, as it was contended that the fund's management, including the poverty eradication mechanism, needed improvement. Seeing potential in this tendency, the government introduced a better approach to administration which led to the inclusion of economic thinking in managing the fund. Gradually, the institution was absorbed into the broader economic development agenda, with the government, over time, stipulating the fund in its economic plans and recommending its use for eradicating poverty.

Since zakat is compatible with the objective of poverty eradication, more effective disbursement was sought. The final section will elaborate on this aspect within the purview of income generation programs, which are among the means of zakat disbursement most regularly suggested by writers and academicians at numerous seminars. This section will give an overview of the practice in various states, including Selangor, which is the most advanced in this respect. Full deliberation on the practice of income generation as it reflects the impact of Islamization in the state will, however, be presented in the next chapter.

This chapter throughout could fulfil objective three, by discussing the development of zakat and the implementation of income generation through the fund as a manifestation of the Islamization phenomenon in the country, thus showing how zakat interacts with features of its surrounding environment such as government and society. This chapter will also provide a brief picture of Malaysia before we concentrate on the case of Selangor in a later chapter.

5.2 A Brief Background of Malaysia

Before venturing further into the main subject of the chapter, it will be helpful to outline the general socio-political and economic characteristics of Malaysia, as well as to provide some general facts about Islam and Malaysian Muslims. All this information is pertinent, as it gives us a glimpse of how the country has been systematically run.

Geographically, Malaysia comprises 13 states from two major regions: the peninsular, which is made up of eleven states (Selangor, Perak, Pahang, Johor, Melaka, Negeri Sembilan, Kedah, Perlis, Terengganu, Kelantan and Pulau Pinang), and Borneo Island, consisting of Sarawak and Sabah. In addition, there are three areas within federal territory, namely Kuala Lumpur, the official capital city of the country; Putrajaya, the federal administrative city; and Labuan, the only federal territory located on Borneo Island.

The Malaysian Federation establishes a system of government based on constitutional monarchy, federal structure and parliamentary democracy. The governmental system is closely modelled on the British Westminster inherited from British colonial rule.¹ The legislative power is divided into federal and state legislatures. The federal legislative component comprises the two Houses of Parliament, namely, the House of Representatives and the Senate.² At the state level, there is a State of Legislative Assembly (SLA).³ With a prime minister at the head at federal level and a chief minister at state level, the practice of regular, periodic and free elections has been maintained to sustain both Houses of Parliament and the SLAs and ultimately to appoint the prime minister.⁴

¹ H.F. Rawlings, "The Malaysian Constitutional Crisis of 1983", *The International and Comparative Law Quarterly* (35)(2) (1986): 237.

² The Senate has 70 members and the House of Representative has 222 members. The members of the former consist of those who are representing each states and also appointed by the Paramount Ruler, whereas the members of House of Representative are elected by Malaysian citizen through general election. See <http://www.parlimen.gov.my/dR-maklumatumum.htm> (accessed 18 Feb 2010)

³ Shafrudin Hashim, "Governance and Social Policy in Malaysia", in *Towards Asia's Sustainable Development: The Role of Social Protection*, ed. Organisation for Economic Cooperation and Development (Paris: OECD, 2002), 74.

⁴ "The Constitution of Malaysia", Article 55 and 43, <http://confinder.richmond.edu/admin/docs/malaysia.pdf> (accessed 18 February 2010).

Executive power in the country is held by the prime minister, chosen by election, upon the approval of *Yang Dipertuan Agong* (the supreme ruler), among those who, in his opinion, command a majority in Parliament. The United Malay National Organization (UMNO), a Malay ethnic based party, is the most dominant party in the parliament, from which all prime ministers have emerged. The current prime minister, Mohd Najib Tun Abdul Razak, who took office in 2009, is the sixth.⁵

Malaysia is a multiracial country. Recent reports indicate that the Malaysian population has reached approximately 28.3 million, with an average annual population growth of around 2.1%. Ethnically, the primary division in Malaysia is between the majority indigenous Muslim Malays and minority non-Malay Chinese and Indians. The latter two races came to Malaysia mainly under British patronage to engage in the two predominant pre-modern industries, namely tin mining and rubber. While there were already some Chinese and Indian inhabitants in Malaya before British occupation, the mass migration only took place between the late nineteenth century and the 1930s.⁶ In addition to the aforementioned ethnic groups, there are many indigenous ethnicities, briefly categorized as *Bumiputra* (sons of soil). Their numbers, however, are only significant in the Borneo state of Sarawak and Sabah.⁷ Details of the ethnic composition can be found in Table 5.1 below.

Table 5.1: Malaysian Citizen Composition Based on Ethnicity (in percentages)

State	Malay	Other Bumiputra	Chinese	Indian	Others
Perlis	85.94	0.33	9.51	1.23	2.99
Kedah	77.63	0.25	13.58	6.74	1.85
Pulau Pinang	44.74	0.45	43.98	10.39	0.44
Perak	54.88	2.58	29.66	12.53	0.4
Selangor	54.96	1.67	28.5	13.79	1.09
Kuala Lumpur	44.57	1.1	42.1	10.88	1.36

⁵ For the composition of members of Parliament, please refer: <http://www.parlimen.gov.my/dR-statistik.htm>, (accessed 18 February 2010).

⁶ Anand, *Inequality and Poverty in Malaysia*, 1-4; Roslan Abdul Hakim, "Income Distribution and The New Economic Policy in Malaysia", Phd Thesis, University of Wales Bangor, 2001, 116.

⁷ For discussion about Bumiputra, see Sharon Siddique and Leo Suryadinata, "Bumiputra and Pribumi: Economic Nationalism (Indiginism) in Malaysia and Indonesia", *Pacific Affairs*, 4 (54) (1981-1982): 672.

Negeri Sembilan	58.49	1.6	23.85	15.61	0.45
Johor	57.16	1.41	33.61	7.17	0.65
Pahang	72.96	5.28	16.2	4.75	0.82
Terengganu	96.78	0.33	2.41	0.22	0.26
Kelantan	94.61	0.85	3.32	0.25	0.98
Sarawak	23.28	50.12	26.19	0.19	0.22
Sabah	15.4	65.73	12.46	0.5	5.92
Labuan	44.61	34.82	15.98	1.28	3.31
Malaysia	55.1	11.9	24.34	7.35	1.3

Source: Adapted from Basic Population Characteristics by Administrative Districts, Department of Statistics, Malaysia, 2009.

Based on the above discussion, it is clear that Malaysia is a secular democratic multiracial country. The secular nature of the country is however not totally free from the influence of any religion. As Islam is the religion professed by the Malays, the nation's majority ethnic group, the constitution gave a special position to the religion. The constitution briefly stipulated that Islam is an official religion in the country with a guarantee that other religions can also be freely adhered to without any restriction.⁸

It is worth noting that the status given to Islam does not mean that independent Malaysia is a religious state. In this case, the Constitutional Commission reported in 1957 that the provision was merely intended to fulfil the ceremonial role such as reciting Islamic prayers at the opening or closing government functions.⁹ The commission also clearly reported that the stipulation "shall not imply that the state is not a secular state".¹⁰ Apart from that, the government has also stressed the secular nature of the country. The first prime minister in 1960s for example has publicly said that Malaysia is a secular country and the status of Islam is merely the official religion of the state.¹¹

⁸ "The Constitution of Malaysia", Article no.3(1), <http://confinder.richmond.edu/admin/docs/malaysia.pdf> (accessed 18 February 2010).

⁹ Joseph M. Fernando, "The position of Islam in the Constitution of Malaysia", *Journal of South East Asian Studies*, (37)(2) (2006): 250; Norhashimah Yassin, "Islamisation or Malaynisation? A Study On the Role of Islamic Law in the Economic Development of Malaysia: 1969-1993" Phd thesis, University of Warwick, 1994, 82.

¹⁰ Yassin, "Islamisation or Malaynisation?", 81.

¹¹ Yassin, "Islamisation or Malaynisation?", 93.

Amid the clear declaration by the commission and also the government over the nature of the country, the existence of the statement has nevertheless created a space in which Islam can have an impact on the nation. As we shall see in this chapter, the Islamization phenomenon has to a certain extent put pressure on the government, with Muslims and their movements, basing its cause on this statement, using the argument that government should do more to realize an Islamic state. The ruling government, on the other hand, was inclined to keep Islam with the position of the religion remaining as it is.¹² As a result, the government over time has to promote its version of Islamization in which the government chose to strengthen Muslims economically rather than legally. Such an effort was undertaken on the understanding that the country's Muslims are still, in that respect, disadvantaged compared to non-Muslims. As we shall see in the coming sections, the nature of Malaysia's ethnic composition and the status of Islam will be among important elements in shaping the Islamization pattern in the country.

5.3 Economic Imbalance and the Role of Islam: The Dynamics of the Islamization Phenomenon in Malaysia

It is a matter of fact that although, the Malays are strong in numbers, this is not the case when it comes to the economy, in which non-Malays dominate. The disparity between races, which was inherited from the era preceding Malaysian independence in 1957 and has prevailed since, finally led to political instability and racial rioting in 1969. Consequently, the Malaysian government, through its national economic policies, has over time initiated infrastructural features and institutions designed to empower Malays economically as they compete with other ethnic groups.

Soon after the introduction of the New Economic Policy, around the early 70s, the Malaysian social landscape concurrently showed a remarkable change, featuring the proliferation of Muslim religious groups and leading to the gradual

¹² Chandra Muzaffar, "The Islamic State Issue in Malaysia: Perceptions and Realities", *Conference on Progressive Islam and the State in Contemporary Muslim Society*, The Institute of Defence and Strategic Studies, 7-8 March, Singapore, 2008, 12; Chandra Muzaffar, *Challenges and Choices in Malaysia politics and Society* (Penang: Aliran Kesedaran Negara, 1989) 430. ; Hamayatsu, "Islam and Nation Building", 358.

strengthening of Islamic forces at the societal level. The phenomenon has caused the ruling government to react accordingly by introducing its version of Islamization.

Hence, throughout this section, we can observe the process of Malaysian Islamization, which is associated with the empowerment of Muslims in response to racial economic competition. The pattern of embracing Islamic institutions in the sphere of Malaysian economic development is important for understanding the overall position of zakat in the country, the perusal of which will follow later.

The earlier part of this section shows the economic situation in newly independent Malaysia, featuring the imbalance between races which ultimately led to the racial riots of 1969. The effect of the riots was that the government took firm steps to introduce affirmative policies favouring Malays.

The second part discusses the Islamization of society in the 1970s and 1980s, leading to religious awareness and the demand for a greater role of Islam in society. The change has exerted political force for the government to react by introducing official Islamization. This part will reveal what was actually meant by Islamization in the Malaysian context.

5.3.1 Racial economic imbalance and government policies to empower the Malay Muslims

The problems of poverty and economic development in Malaysia cannot be separated from the dynamics of the country's racial composition. As mentioned earlier, British colonial policy in the early twentieth century attracted Chinese and Indian immigrants, arriving to work in the booming Malayan tin mining and rubber plantation industries. The British in this case provided many incentives for interested immigrants, such as free accommodation and an immigration fund.¹³ The proportion of Malays, originally 90% of the total population of the Malay states at the beginning of 1900, was drastically reduced to merely 45% by 1931.¹⁴ This circumstance led to

¹³ Firdaus Abdullah, "Affirmative Action Policy in Malaysia: To Restructure Society, to Eradicate Poverty", *Ethnic Studies Report*, (15)(2) (1997), 149.

¹⁴ Abdullah, "Affirmative Action", 195; Ozay Mehmet, *Development in Malaysia: Poverty, Wealth and Trusteeship* (London: Croom Helm, 1986), 7; John H. Drabble, *An Economic History of*

the formation of a plural society which changed the overall Malaysian societal structure.

As the mines were transformed into urban areas, the non-Malays were directly exposed to development and urbanization in their places of residence.¹⁵ The non-Malays, besides being actively involved in mining activities, were also active in business and trading as the main enterprises in urban areas. Since then, these economic activities have apparently been considered lucrative in the country. In the early 1930s, for example, respectively 80% and 90% of the tin mines and business proprietorships in Malaysia were already in the hands of non-Malays, especially Chinese.¹⁶

The Malays, on the other hand, largely remained in rural areas, traditionally holding small parcels of land and working as farmers, fishermen and rubber tappers.¹⁷ These activities unfortunately were not as lucrative as business and mining, so that ultimately the Malays were economically worse off than the other, non-native races.

Making the cleavage between races worse, a segregated geographical setting limited interracial communication in the pre-independence period, with the different races generally communicating only briefly, in the course of business or retail dealings.¹⁸ In 1957, for instance, only 11% of Malays lived in urban areas, by contrast with the 45% and 30% of Chinese and Indians respectively. This situation has led to racial segregation without mutual understanding, despite the fact that the races actually share the same country.

The existing interracial society together with interracial economic imbalance prior to Malaysian independence in 1957 was inherited by the post-independence government. Economically, the government after independence and in the 1960s focused on developmental growth, in the belief that the benefits of economic

Malaysia, c.1800-1990, The Transition to Modern Economic Growth (London: MacMillan Press Ltd, 2000), 90.

¹⁵ Abdullah, "Affirmative Action", 196

¹⁶ Leon Comber, *13 May 1969, A Historical Survey of Sino-Malay Relations* (Singapore: Graham Brash (Pte) Ltd, 1983), 91.

¹⁷ Drabble, *An Economic History*, 110; Mehmet, *Development in Malaysia*, 30-42; Hakim, "Income Distribution", 116.

¹⁸ Hakim, "Income Distribution", 116.

progress would be shared equally by all races.¹⁹ This unfortunately was not to be the case, as it proved impossible to eliminate the disparity. The concentration of the different races in rural and urban areas in the period from independence to the end of the 1960s can be clearly seen in the following official statistics.

Table 5.2: Population by Community Groups and Degree of Urbanization at 1957 and 1970

	1957		1970	
	Urban (%)	Rural (%)	Urban (%)	Rural (%)
Malays	11.2	88.8	14.9	85.1
Chinese	44.7	55.3	47.4	52.6
Indians	30.6	69.4	34.7	65.3
Others	49.3	50.7	40.8	59.2
Total	26.5	73.5	28.7	71.3

Source: Government of Malaysia, *Economic Report 1973-1974* (Kuala Lumpur: Government Press, 1973), 205, cited in Fred R. von der Mehden, "Communalism, Industrial Policy and Income Distribution in Malaysia", *Asian Survey*, (15)(3) (1975): 248.

Besides that, measured by household income, ownership of companies and membership of registered professional bodies, it was also obvious that the non-Malays were still better off.²⁰ At a glance, the condition of the three races in 1970 was as follows:

Table 5.3: Communal Economic Determinants in 1970

Determinants	Malay	Chinese	Indian
Mean of Household Incomes (M\$ per month)	172	394	304
Capital Ownership in Limited Companies (M\$ million)	49294	1064795	40983
Membership of Registered Professional bodies (total number)	225 (including other Bumiputra)	2793	1066

Source: Modified from Firdaus Abdullah, "Affirmative Action Policy in Malaysia", 210-213.

The poverty problem also could still be traced on a racial basis, with figures showing that 65% of Malays were still living in poverty. Table 5.4 gives the details:

¹⁹ Hakim, "Income Distribution", 125.

²⁰ Abdullah, "Affirmative Action", 198; R. S Milne, "The Politics of Malaysia's New Economic Policy", *Pacific Affairs* (49)(2) (1976): 240-241.

Table 5.4: Peninsular Malaysia: Households in Poverty, 1970²¹

	All Households (000)	Poor Households (000)	Poverty Incidence (%)	Total Poor Households (%)
Malay	901.5	584.2	64.8	73.8
Chinese	525.2	136.3	26.0	17.2
Indian	160.5	62.9	39.2	7.9
Others	18.8	8.4	44.8	1.1
Total	1606.0	791.8	49.3	100.0
All rural	1166.7	683.7	58.6	86.3
All urban	439.3	108.1	24.6	13.7

Sources: Government of Malaysia, *Third Malaysia Plan 1976-1980* (Kuala Lumpur: Government Printers, 1976); Abdullah, "Affirmative Action", 212.

Twelve years after independence, ethnic relations in the country became strained. Malays were strongly resentful of the fact that they had been swamped by immigrants, and there was further dissension over the way the government was handling the country's economic and political situation. They ultimately called for a political agenda aimed more firmly at strengthening Malays.²²

On the other hand, the non-Malays were concerned about their political under-representation, perceiving that too much power was being given to Malays, and feeling that they themselves should be given a more substantial voice in politics.²³ In certain respects, they felt that the government agenda was weighted against them. For example, in the 1960s they rejected the Language Policy establishing Malay as the national language, which was a government plan to unite segmented groups in the country, but which they claimed was an agenda for

²¹ In Malaysia, poverty has been measured by poverty line income which is constructed from the basic cost of purchasing certain minimum necessities of life including foods, clothing, shelter, transportation, education and health care. The line has been occasionally revised. For example, in the 1970s and 1990s, the government applied respectively \$252.36 and \$425.00 for a household Poverty Line. Muniappan Perumal, "New Budget Standard Poverty lines for Malaysia", *Review of Income and Wealth* (38)(3) (1992): 347; Government of Malaysia, *Second Malaysia Plan 1971-1975* (Kuala Lumpur: Government Printers, 1971), 2; Prime Minister's Department, Malaysia, "Malaysia: 30 Years of Poverty Reduction, Growth and Racial Harmony" Paper presented in Scaling Up Poverty Reduction: A Global Learning Process and Conference, Shanghai, 25-27 May 2004, 40.

²² Abdullah, "Affirmative Action", 197; Jomo K. Sundaram, "The New Economic Policy and Interethnic Relations in Malaysia", *Identities, Conflict and Cohesion Programme Paper Number 7*, (Geneva: United Nations Research Institute for Social Development, 2004), 2; Gordon P. Means, "Special Right as Strategy of Development: The Case of Malaysia" *Comparative Politics*, (5)(1)(1972): 55-56, 59.

²³ Abdullah, "Affirmative Action", 197; Sundaram, "The New Economic Policy", 2; Means, "Special Right", 55-56, 59.

suppressing them culturally. Indeed, the main problem underlying the conflicting views was the mistrust between Malays and non-Malays.

It was exacerbated by the approach of the 1969 general election. To show their feelings, the majority of those who had previously supported the government, gave their support to the opposition, with the result that the ruling Alliance Party won the poll with only a slim majority, giving the opposition for the first time a sense of rising popularity. As a tragic consequence, a racial riot broke out on May 13, 1969, due to an overheated victory celebration. The situation arose when opposition supporters, mainly non-Malays, celebrated their candidate's victory by allegedly chanting racial slogans slandering Malays in Kuala Lumpur, Malaysian capital city and telling them to move out of the city. The Malays, who were mainly UMNO members, responded negatively, leading to terrible clashes. The riot, regarded as the most violent event in post-independence Malaysia, eventually claimed nearly 200 lives, injured more than 500 people and led to 9000 arrests. The crisis went on intermittently for two months, culminating in a declaration of a state of emergency and an 18-month suspension of Parliament.²⁴

The tension was construed by the government as the product of mutual misunderstanding between races and the resentment felt by the majority over the economic disadvantage they suffered as natives. The government then initiated the New Economic Policy (NEP), encompassing four 5-year Malaysian plans from 1970 to 1990, which affirmatively inclined the majority Malays towards the belief that political stability and national unity could only be attained if they received a fair share of the nation's wealth.²⁵

The NEP specified a target: namely, that by the end of 1990, poverty should be reduced by about 16% and Malays should hold a fair share of economic power. Specifically, 30% of the country's wealth should belong to them.²⁶ To achieve the policy's objective, the government directed its resources towards areas and sectors

²⁴ Yassin, "Islamisation or Malaynisation?", 96.

²⁵ Government of Malaysia, *Second Malaysia Plan 1971-1975*, 3; Prime Minister's Department, Malaysia "Malaysia: 30 Years of Poverty Reduction", 3.

²⁶ Sundaram, "The New Economic Policy", 3; Milne, "The Politics of Malaysia's New Economic Policy", 238; Government of Malaysia, *Second Outline Perspective Plan 1991-2000* (Kuala Lumpur: Government Printers, 1991), 75-76.

where Malays were generally concentrated, namely rural areas and the agricultural sector.

A few examples of agencies and bodies established to deliver the government's policies may illustrate this point. In 1970, Bank Pertanian Malaysia (BPM) was established to provide agricultural loans and credit. Over ten years, BPM approved RM 642 million loans, mainly for paddy producers and the tobacco industry.²⁷ The National Paddy and Rice Authority was established in 1971 to oversee a Guaranteed Minimum Price System which supported farmers by buying the rice from them, licensing rice millers and managing buffer stocks.²⁸ For land development and resettlement of rural communities, the Federal Land Development Community (FELDA), complemented by the Federal Land Consolidation and Rehabilitation Authority (FELCRA), affecting a large-scale rural and new settlement area, was put into operation.²⁹ Up to the end of the NEP period, it was reported that the overall budget for poverty eradication amounted to RM 32.9 billion, or 19.1% of total development expenditure.³⁰

In brief, it was generally observed that the NEP had brought about changes to the Malays' living standards, to the extent that, by 1990, poverty incidence had been substantially reduced, to 17%. Many Malays moved to urban areas, an estimated 30 percent migrating to the inner cities in the late 1970s alone, and became involved in more lucrative economic activities such as commerce and business. Their involvement in middle-class occupations such as administration and management also rose significantly, from 22.4% in 1970 to 31.3% in 1990.³¹

It is not our intention to discuss in detail the implementation of the NEP. What is important here is that the nature of the policy and its implementation favourable to the native ethnic group who are also Muslims could be seen as a policy indirectly helping Islam. This situation gave the government an opportunity, as we

²⁷ Mehmet, *Development in Malaysia*, 46-48.

²⁸ Mehmet, *Development in Malaysia*, 46-48.

²⁹ Mehmet, *Development in Malaysia*, 46-48.

³⁰ Prime Minister's Department, "Malaysia: 30 Years of Poverty Reduction", 22.

³¹ Mutalib, *Islam in Malaysia*, 29; "Second Outline Perspective Plan 1991-2000", http://www.epu.gov.my/chapter2?p_p_id=56_INSTANCE_UZGF&p_p_lifecycle=0&p_p_state=normal&p_p_mode=view&p_p_col_id=column-4&p_p_col_count=1&page=3, (accessed 18 October 2010).

shall see, to use religion creatively as a medium for empowering Muslims. Such a step seemed pertinent in facing the challenge of the Islamization wave which began in the 1970s.

5.3.2 Islamization of society and the Infusion of Islam into government policy

Since the 1970s, Malay Muslims in Malaysia, due to receiving better treatment economically from the government through the NEP, have themselves been experiencing some changes in their outlook. They have displayed changes in behaviour due to the religious revival, which also could be regarded as the Islamization of Muslim society in the country. A few trends can be noted in this respect: namely, the proliferation of religious propagation movements and the increase in religious awareness among the Muslim masses, as well as a stronger political challenge to the ruling government. Ultimately, they called on the government to be concerned about Islam.

As a result of the pressure from society, the government since the early 1980s has itself introduced Islamization programs to improve the condition of Muslims socially and economically. In this context, the government chose to establish financial and educational Islamic institutions as well as to embrace Islam in development policies. The process has gone on steadily through the later decades in which, zakat has been slowly incorporated into the broader program of national development.

The coming parts will clarify the slow but steady process of change in society as well as government, at the same time describing the milestones in the state's Islamization. The first parts will describe the Islamization of society in the 1970s, while the second parts will clarify the Malaysian government's Islamization strategy. At the end, we shall see the growing role of Islam in the country.

1. Islamization of society: the phenomenon following the 1969 riot

The proliferation of *dakwah* (missionary) groups is an observable feature of the Islamization of society in Malaysia since the 1970s. The emergence of the movement was mainly due to the awareness in society since the 1960s, especially among the youth at universities, of the need to make an active effort to persuade the

government to resolve Malays' problems. Having introduced the NEP after 1969, the movements now turned its focus onto Islam.³²

Indeed the educational and economic orientation adopted by the government since independence in 1957 had focused only on material development, with educational policy mainly centred on secular education geared towards success in the national promotional examination. This orientation had resulted in the persistent neglect of Islamic instruction, with the result that Muslims were very much influenced by western culture as popularized by the entertainment media.³³ Such a situation gave the movements an incentive to revive Islamic awareness in society.³⁴

There were many Islamic movements in operation during this period, such as Angkatan Belia Islam Malaysia or the Malaysian Islamic Youth Movement (ABIM), Jamaat Tabligh and Darul Arqam. ABIM was established in 1971 by several alumni of the National Association of Malaysian Islamic Students (PKPIM), an active student movement of the 1960s which urged the government to help Malays socially and economically and launched student activities aimed at helping poor Malays.³⁵ With the introduction of the NEP, they shifted towards Islam, demanding that economic and social development be associated with the religion.³⁶ Since the 1970s, ABIM has taken the struggle of the PKPIM into the wider world beyond the universities, while the latter merely gave support to the former by, for example, organizing training programs for university students.³⁷

In orientation, ABIM has been demanding a greater Islamic emphasis on the part of government, in order to promote the establishment of a fully-fledged Islamic State.³⁸ ABIM has received considerable support mainly from youth in higher

³² Zainah Anwar, *Islamic Revivalism in Malaysia, Dakwah Among Students* (Petaling Jaya: Pelanduk Publication, 1987), 16-17.

³³ Ahmad Fauzi Abdul Hamid, "Islamic Resurgence in the Periphery: A Study of Political Islam in Contemporary Malaysia with Special Reference to the Darul Arqam Movement", Phd thesis, University of Newcastle Upon Tyne, 1998, 102; Judith Nagata, "Islamic Revival and the Problem of Legitimacy Among Rural Religious Elites in Malaysia", *Man*, (17)(1) (1982): 48.

³⁴ Anwar, *Islamic Revivalism*, 16-17.

³⁵ Anwar, *Islamic Revivalism*, 16; Judith Nagata, "Religious Ideology and Social Change: The Islamic Revival in Malaysia", *Pacific Affairs* (53)(3) (1980): 424.

³⁶ Anwar, *Islamic Revivalism*, 16.

³⁷ Anwar, *Islamic Revivalism*, 17; Judith Nagata, *The Reflowering of Malaysian Islam, Modern Religious Radicals and Their Roots* (Vancouver: University of British Columbia Press, 1984), 61

³⁸ Jomo K. Sundaram and Ahmad Shabery Cheek, "The Politics of Malaysia's Islamic Resurgence" *Third World Quarterly*, (10)(2) (1988): 846.

institutions with whom it has strong relations and shared aspirations. In 1977 it was reported to have 20,000 members, rising to 35,000 in the mid-1980s.³⁹

Another movement which actively called for a return to Islam was Darul Arqam, established in the earlier 1970s.⁴⁰ Perhaps due to its founder being a former member of ABIM, Darul Arqam has a similar orientation to ABIM's, that of eagerly attempting to solve the nation's problem through Islam. However, it was rather different from ABIM, where the movement appeared to be more apolitical. Arqam chose to set up private communities in many places, in which followers tended to adopt a certain standard of attire, resembling those of the era of the Prophet Muhammad.⁴¹

Arqam also promoted economic self-sufficiency. In the 1970s the movement began to produce goods and services which specifically fulfilled Muslims' needs in regard to dietary religious rules, in the belief that Muslims should be independent of non-Muslim producers. Overall, Arqam intended to create a model of the "truly Islamic society", from which vantage point it aimed to Islamize the larger community nationally or internationally and finally to restore the Islamic caliphate. Between the mid-1970s and the mid-1980s membership grew from under 100 to 6000.⁴²

The Jamaat Tabligh is another well-known group in Malaysia. The movement, considered pietistic in nature, was founded in Delhi by Muhammad Ilyas, a Deoband alumnus in 1926, and began to be introduced in Malaysia in the 1950s.⁴³ It was initially followed by few Indian Muslims and could only attract Malay followers after 1970s. The movement has preferred to work at community level, focusing on reviving personal understanding of religion, and displaying no interest in political activities. In this aspect, members have emulated the practice of their Indian forebears by travelling in specially dispatched missionary groups. Making local mosques their makeshift headquarters, a group of missionaries would give lectures

³⁹Sundaram and Cheek, "The Politics", 845; Nagata, "Religious Ideology", 423.

⁴⁰ For detail account on Darul Arqam, refer: Hamid, "Islamic Resurgence", 146-163; Anwar, *Islamic Revivalism*, 36.

⁴¹ Bakar, "Islamic Revivalism and the Political Process in Malaysia", 1049.

⁴² Hamid, "Islamic Resurgence", 162

⁴³ Peter Mandaville, "Transnational Islam in Asia", 11; Hamid, "Islamic Resurgence", 186.

after the daily prayer assembly and visit local Muslims on a door-to-door basis to convey the essentials of the faith and invite them to daily prayers in the nearest mosque.⁴⁴

Although politically, Tabligh since its formation has not so far posed as strong a challenge to the government, its influence on the religious awareness of the masses cannot be denied. The movement has been consistent in its efforts to persuade Muslims to fulfill their personal religious obligations such as daily prayer and payment of zakat, besides having been apparently successful in inspiring Muslims to visit local mosques regularly.

In sum, the introduction of the NEP has to an extent led to the proliferation of religious movements. This however is not all there is to say about the process of Islamization of society in the 1970s. Apart from the movement's active operation, the attraction was to a certain degree the product of socio-economic change during the decade.

It is interesting to note that the NEP brought about a continuing process of national modernization and rural-urban migration, presenting a new challenge for Muslims. In the late 1970s, for example, approximately 30 percent of Malays had migrated to inner cities, with some results that they were not actually ready to face. Traditional and communal solidarity, previously part of the culture, suddenly faded from their lives. Individualism and the atomized family characterized the city lifestyle. The nature of urban occupations has become such that an individual's public personality often contradicts his or her private self, leaving a spiritual vacuum within.⁴⁵ In the rediscovery of their identities, many Muslims eventually found personal redemption in the Islamic emphasis on communal solidarity and the mutual camaraderie promoted by Islamic movements.⁴⁶

The situations in which Muslims were eventually attracted to a return to Islam did not merely arise in local settings, but also among those who studied

⁴⁴ Ahmad Fauzi bin Abdul Hamid, "Transnational Islam in Malaysia" in *Transnational Islam in South and Southeast Asia: Movements, Networks and Conflicts Dynamics*, (The National Bureau of Asian Research: USA, 2009), 154.

⁴⁵ Chandra Muzaffar, "Islamic Resurgence : A global View" in *Islam and Society in Southeast Asia* , eds. Taufik Abdullah and Sharon Siddique, (Singapore: ASEAS, 1986),18.

⁴⁶ Hamid, "Islamic Resurgence", 110; Mutalib, *Islam in Malaysia*, 29.

abroad. It is worth noting that the government, since the introduction of the NEP, has sent thousands of Malay students annually to international universities, for example, in the United Kingdom and the United States. It involved a quite considerable number of students; according to one report, in early 1980s there were already 18,000 students studying abroad.⁴⁷

During the students' academic sojourn, they acquired Islamic knowledge and shared it with their international Muslim cohorts. They were also exposed to the then active international Islamic student movements such as FOSIS (Federation of Islamic Student Societies), the Malaysian Islamic Study Group and the Islamic Representative Council, in which they went on to show their support for any Islamic cause, including the movements they joined on returning to Malaysia.⁴⁸ These students, along with new urban dwellers, have thus been the agents and catalysts of a more widespread religious awareness in broader Muslim society.

As a clear manifestation of the above-noted proliferation of religious movements, coupled with the substantial response of the masses to the religious call, Malaysians in the late 1970s, by contrast with the early days of independence, were remarkable for their highly visible Islamic consciousness, providing extensive evidence of a new devoutness.⁴⁹ It was widely observed that more and more Muslims returned to mosques and *surau* (prayer houses).⁵⁰ Friday prayers, religious lectures and other events are now frequently observed as regular features of young people's social scene.⁵¹

Apart from that, Islamic garb (the apparel which covers most of the female body) has since then been chosen by a majority of Muslim females. Such apparel, which in the early 1970s was merely adopted by committed members of religious groups, is now regarded as part of official attire in the government sector. Muslims have also become considerably concerned about their dietary rules, only consuming whatever they have been assured is *halāl*, so that they now prefer to buy from

⁴⁷ Shanti Nair, *Islam in Malaysian Foreign Policy* (Singapore: ISEAS, 1997), 157.

⁴⁸ Anwar, *Islamic Revivalism*, 25-29

⁴⁹ Nagata, "Islamic Revival", 49.

⁵⁰ Hussin Mutalib, "Islamic Revivalism in Asian States: Political Implications" *Asian Survey* (30)(9) (1990): 880.

⁵¹ Nagata, "Religious Ideology", 415.

Muslim producers although they had previously been accustomed to buying from non-Muslims.⁵²

Perhaps worth noting here is that such a change did not only take place in ordinary Muslim families. It has also to a certain degree impacted on important people in the country. For example, the third prime minister was shocked by the sudden change in his own daughter who covered all of her body on her return from studying abroad.⁵³

Throughout the discussion in this section so far, it is clear that that the NEP has provided the impetus for the emerging phenomenon of Islamization of society in the 1970s. The change in society since the NEP has, in turn, continually strengthened the influence of the movements and eventually produced greater awareness of Islam among its followers. What is important here is that such a phenomenon did not end at this point but gradually posed a significant challenge to authority, later sparking a counter-reaction from the government.

Politically, the movements have over time openly voiced demands that the ruling government should more concern over Islamic matters. ABIM, for example, has promoted the establishment of a fully-fledged Islamic State. The movement held that declaring Islam the official religion of the country, as stated in the constitution, was inadequate. Its members call for state law based on *sharī'a* and an economy freed from interest, with the existing taxation system replaced by a thoroughly implemented system of religious taxation.⁵⁴

Arqam also claimed that the government was not Islamic in many respects. The NEP, according to them, is not a policy consistent with Islam because of its basis in materialism. By contrast, they demanded an empowerment mechanism by which Muslims could be freed, through religion, from non-Muslim economic dominance.⁵⁵ That is why they introduced their own version of a project for economic sufficiency, including such ventures as repair shops and garages, Muslim food production,

⁵² Hamid, "Islamic Resurgence", 116; Nagata, *The Reflowering*, 107.

⁵³ Anwar, *Islamic Revivalism*, 30.

⁵⁴ Sundaram and Cheek, "The Politics", 846.

⁵⁵ Nagata, *The Reflowering*, 107.

publications and clinics.⁵⁶ With their rejection of the government-sponsored approach to economic programs for empowering Malays, such moves towards economic self-sufficiency and autonomy could obviously be seen as indirect challenges to the principles of the NEP.⁵⁷

Another political challenge arose from cooperation between the movement and the opposition political party, as happened at the end of the 1970s, when a number of ABIM members ran for Pan Malaysian Islamic Party (PAS) candidature in the 1978 general election. PAS actually was not strong enough individually to manage without support from other Islamic movements.⁵⁸ From the outset, PAS's ideology has combined Malay nationalism with the struggle to establish an Islamic state, and it has been considered a chauvinist party because of its criticism of UMNO's cooperation with non-Muslim, non-Malay parties.⁵⁹

After the 1969 riot, PAS in 1973 joined the extended ruling Alliance on Malay-Muslim unity and the success of the NEP. PAS representation in the ruling government, however, did not last long after problems with UMNO. This crisis was a turning point for ABIM, which gave open support to PAS on the principle that it should support an Islamic party that had been undermined by the nationalist secular party, UMNO.⁶⁰

ABIM launched a nationwide campaign to support PAS and a number of former's top leaders campaigned on the latter ticket. The societal support for PAS eventually grew dramatically, especially in urban areas, where the party had initially been the least popular.⁶¹ The collaboration revealed the dynamism of Islamic movements which could be potentially threatening to the ruling party's survival. It also signified the stronger demands of the Muslim population, especially when combined with the election results, which showed encouragingly narrow losing margins.

⁵⁶ Nagata, *The Reflowering*, 109.

⁵⁷ Nagata, *The Reflowering*, 113.

⁵⁸ Sundaram and Check, "The Politics", 845.

⁵⁹ Sundaran and Check, "The Politics", 845; Joseph Liow, *Deconstructing Political Islam in Malaysia: UMNO's Response to PAS's Religio-Political Dialectic*, (Singapore: Institute of Defence and Strategic Studies Singapore, 2003), 2.

⁶⁰ Sundaram and Check, "The Politics", 850.

⁶¹ Sundaram and Check, "The Politics", 851.

What we can derive from this section is that the NEP led to the Islamization of society in the 1970s through the proliferation of religious movements, significantly backed by Muslims voicing their demands for government to become Islamic. All these phenomena could indeed make the government nervous, with the result that it finally embarked on its own Islamization program in the 1980s.

2. Reactive action by the government: embracing Islam

Initially, government seemed reluctant to bow to the movements' demands. Government ministers frequently directed critical remarks at the movements, ridiculing them and alleging that their only concern was with the hereafter, to the neglect of temporal development— an emphasis which, should it attract much support, could jeopardize overall national development.⁶² The government also introduced a stricter Societies Act to curb or at least control the development of the movements, by enabling the state to monitor and control their links with international societies. Since it was no secret at that time that ABIM was closely associated with foreign Islamic movements such as Jamaat Islami of Pakistan and Ihwan al-Muslimin of Egypt, this measure seemed to be specifically aimed at ABIM, although it supposedly covered all societies.⁶³ Indeed, government actions in the 1970s showed a tendency to use methods of rejection and coercion in dealing with the rising phenomenon.

In the early 1980s, when the fourth prime minister took office, the government turned to more co-optive measures by initiating numerous Islamization programs which could be seen as a political attempt to attract devout Muslims and simultaneously to oust the opposition. The government began its moves by taming religious figures. Among the greatest of the government's successes was the co-option of Anwar Ibrahim, the most prominent leader of ABIM in 1982. Anwar's enticement by the government was believed to have been made possible by his personal aspiration to help the government with its Islamization agenda. He was then popularly viewed as a factor in the intensification of that agenda, especially in the

⁶² Hamid, "Islamic Resurgence", 205.

⁶³ Fred R. Von Der Mehden, "The Political and Social Challenge of the Islamic Revival in Malaysia and Indonesia", *The Muslim World* (76) (3-4) (1986): 230.

1980s and 1990s.⁶⁴ Consequently, since then, ABIM has no longer been a strong critic of the government, eventually becoming a supporter of government policies, including Islamization projects.⁶⁵

To strengthen the government's authority over Islamic matters, it appointed a number of local religious personalities as top government officials heading various departments and bodies. They included Mohd Yusof Noor, a former lecturer in Islamic Studies at a local university, who was appointed Minister of the Prime Minister's Department in 1987 and Abdul Hamid Othman, a government official with a religious background, who was appointed in the early 1990s as a Minister overseeing religious affairs. Among others who actively helped the Prime Minister in determining the direction of Islam in government policy were Wan Mokhtar Ahmad (former Chief Minister of state of Terengganu) and Zainal Abidin Abdul Kadir (former Director of Islamic Development, Department of Malaysia).⁶⁶

The government has also established many Islamic institutions such as Islamic Banks and Financial Institutions, the International Islamic University, and the Malaysian Islamic Understanding Institute, and has strengthened the zakat institution. The first Islamic Bank was established in 1983. It provided an alternative to the secular banking system and marked the beginning of Malaysia's current status as one of the leading nations in the Islamic financial sector.⁶⁷ In this context, the government has never intended to completely replace the secular banking system with the Islamic one; both Islamic and conventional banks have been operating side by side and closely collaborating up to the present time.⁶⁸ Following the Islamic Bank, the first Islamic Insurance (*takaful*) was introduced in 1984 to provide security for Malaysians and also to complement the Islamic banking system. The Islamic banks have proved to be well accepted by society, as shown by the fact that in the early 1990s even non- Islamic banks started to offer Islamic products. Now there are

⁶⁴ Sundaram and Check, "The Politics", 856; Mutalib, *Islam in Malaysia*, 93.

⁶⁵ Sundaram and Check, "The Politics", 859.

⁶⁶ Joseph Chiyong Liow, *Piety and Politics Islamism in Contemporary Malaysia*, (Oxford University Press, 2009), 48.

⁶⁷ Mohd Roslan Mohd Nor *et.al.*, "Historical development of Islamic institutions: A case of Malaysian government", *African Journal of Business Management*, (6)(8) (2012): 2768.

⁶⁸ Ab. Mumin Ab. Ghani, *Sistem Kewangan Islam dan Pelaksanaanya di Malaysia* (Kuala Lumpur : JAKIM, 1999), 254.

16 Islamic banks and 12 *takaful* companies in operation in Malaysia and the Islamic financial sector continues to grow.⁶⁹

In the education sector, the International Islamic University of Malaysia is another project initiated by the government, with support from the Organization of the Islamic Conference (OIC). The university was actually established in 1983 with the aim of contributing to the enhancement of knowledge, especially among Muslims, to help them to be a progressive society.⁷⁰ Since then, the university has been the centre of the country's Islamization of knowledge, its secular courses being supplemented with Islamic and religious instruction. In this university, apart from taking secular courses like economics and engineering, students must study religious subjects such as basic Islam and the Arabic language, the aim being to enable students to acquire the necessary "worldly" skills without neglecting their religious obligations.⁷¹

As for the local context, the establishment of the university was a government measure to give Malays more educational opportunities and thus enhance their academic qualifications. It has also been a centre of learning of Islamic economics, to which thousands of papers on that subject could be referred.⁷² In addition, the university has been the place where many students and lecturers who lean towards Islamic movements could be found.

What is particularly relevant to this section is that the state which was secular in nature has turned to be accommodative towards religion to meet the challenge from society and to win people's hearts. In this respect, the government was not, however, simply responding to the demand by the movements to turn the state into an Islamic one. On the contrary, Islam has been used by the government as a potent element in the nation's economic development. The formation of Islamic banks and the Islamic university could be seen as part of the strategy, as noted above. Besides that, we shall see that Islam has been portrayed in Malaysian economic plans as an

⁶⁹ "Islamic Banking and Takaful", http://www.bnm.gov.my/index.php?ch=fs_mfs&pg=fs_mfs_bank&lang=en (accessed 1 July 2012).

⁷⁰ Nor *et.al*, "Historical development of Islamic institutions", 2770.

⁷¹ Zuraida Ahmad *et.al*, "Islamization of Engineering Education in International Islamic University of Malaysia: Problems and Prospects", *Revelation and Science*, (1)(3) (2011): 133.

⁷² Masyhudi Muqorobin, "Journey of Islamic Economics In The Modern World", *Proceedings of The Seventh International Conference on Islamic Economics*, 2008, 388.

element compatible with development. Accordingly, government since the 1980s has been promoting a strategy popularly called “progressive Islamization”, through which the religion has been expected to bring about a better life for its adherents.⁷³

Such a strategy indeed reflected the then Prime Minister’s view on what the Islamic state is all about. According to him, a state is Islamic not only through its implementation of *sharī’a* but also through the government’s success in upholding economic development, gender equality, social justice and cultural Islamization.⁷⁴ In other words, economic development has thus been projected as something in line with Islamic principles. As a local writer rightly argued, Islam has been seen as synonymous with development, thus encouraging Malays to participate in the economy.⁷⁵

5.4 Development of the Zakat Institution in Malaysia: Channeling the Religious Fund for Muslims’ Development

As mentioned earlier, zakat is an interesting institution because of its nature as an expression of religious piety which also has economic potential. Throughout this part of the chapter, it will be made clear that Islamization in Malaysia has over time resulted in the channelling of the fund towards development.

This section will elaborate on the development of the zakat institution, covering the era from its formation in the early twentieth century through the end of the century. In Malaysia, the zakat institution has been under the control of state rulers, and managed mainly by state religious councils. Prior to the 1970s, as will be seen later, the condition of the institution was generally unsatisfactory, since the collection was unsystematic and disbursement was carried out mainly to enable religious councils to run their operation. At that time, religious councils overall merely perceived zakat as a religious obligation, without associating it with economic development.

⁷³ Diane K. Mauzy and R. S. Milne, “The Mahathir Administration in Malaysia: Discipline through Islam”, *Pacific Affairs*, (56)(4) (1983-1984): 631.

⁷⁴ Muzaffar, “The Islamic State”, 12.

⁷⁵ Yassin, “Islamisation or Malaynisation”, 122.

The Islamization phenomenon taking place since the 1970s has gradually changed the nature of zakat administration in Malaysia. Mainly through religious movements and personal initiatives, in the course of time, the practice of zakat has been questioned, with suggestions for improving it eventually put forward. It was proposed that the zakat should be administered from an economic perspective, which emphasized collection from the rich and disbursement to the poor. Such thinking was slowly accepted by the government which, later in the 1990s, set up a new model for collection. This model was followed later by other states, resulting in a significant increase in collection which gave the religious councils the opportunity to use the fund for development and poverty eradication. Indeed, looking at development since the Islamization era, it appears that the role of zakat has been broadened beyond the sphere of religion so that it is now considered a development tool.

This section hence, can be loosely divided into the following eras: the first, the era prior to Islamization (1900-1960s), during which the fund was perceived totally as a religious obligation; and the second, the period of later decades in which zakat came to be linked with development.

5.4.1 1900s-1960s: The zakat institution prior to the Islamization era

Before the twentieth century, zakat was a purely personal matter, its proceeds being mostly directed to the religious teacher or religious institution due to the high esteem in which Muslims held their religious mentors.⁷⁶ It was then a normal practice for a group of settlers to gather around a person who was well-versed in Islamic knowledge or a religious teacher. They would then submit ten percent of their harvest, particularly rice, to the teacher in return for the religious instruction provided for their families.⁷⁷ It was estimated that in those early days (between the end of the nineteenth and early twentieth century) that from a group of 50 zakat-paying settlers, a teacher could collect approximately 2400 *gantang* (approximately 2400 gallons in volume) annually.⁷⁸

⁷⁶ Nagata, "Islamic Revival", 52.

⁷⁷ Muhammad, *Zakat and Rural Development*, 110-111.

⁷⁸ Afifuddin bin Haji Omar, "Peasant, Institutions and Development in Malaysia: The Political Economy of Development in the Muda Region", Phd Thesis, Cornell University, 1978, 51 cited in

Apart from local religious teachers, the collection was mainly spent on mosques, including payment to those who ran them. Overall, the general understanding of the practice of traditional zakat suggests that, because the zakat was left to individual disbursement, it was perceived purely as an act of religious piety.

A more organized collection by states commenced in the early twentieth century, after the establishment of state religious councils, which then became the main bodies entrusted with collection and distribution of zakat. The establishment of the councils was actually due to the diminishing power of *sultans* (rulers) because of colonialism. The colonial government, after legitimizing its power over the Malay states by the end of the nineteenth century, dominated almost all areas of state administration that had previously been under the power of the *sultans*, leaving the latter with authority only in relation to Islam and other religious matters.⁷⁹ Fully aware of their diminishing power, the rulers consequently gained greater control over Islamic institutions by using instruments adopted by the British for improving state administration, such as the formation of councils and enactment of laws.⁸⁰ Hence, to strengthen the religious administration, *sultans* in all states have gradually established State and Religious Councils and codified Islamic law as represented by enactments.⁸¹ The British believed that this step offered an opportunity to confine Islamic law within domains acceptable to colonial administrators. However, what resulted was the advancement of religious administration under the officials dependent on the *sultan*.⁸²

In 1916, the first religious council was established in the state of Kelantan; since then it has been empowered to manage zakat. Local leaders and religious teachers who had previously been the main collectors and distributors of the fund

Muhammad, *Zakat and Rural Development*, 111. Gantang is a Malay measurement, which in volume is equivalent to 1 gallon and in weight about 5.6 pounds.

⁷⁹ Aidit bin Ghazali, "Zakat Administration in Malaysia" in *The Islamic Voluntary Sector in Southeast Asia*, ed. Mohamed Ariff (Singapore: ASEAS, 1991), 85; Mohamed bin Abdul Wahab *et.al*, "Case Study: Malaysia in Institutional Framework of Zakah: Dimension and Implication" in *Institutional Framework of Zakah: Dimensions and Implications*, ed. Ahmed El-Ashker and Muhammad Sirajul Haq (Jeddah: IDB, 1995), 298.

⁸⁰ Azhar Mohd Nasir, "Development of the Secular and Religious Taxation System in Peninsular Malaysia" Phd Thesis, University of Edinburgh, 1999, 204.

⁸¹ William R. Roff, "Patterns of Islamization in Malaysia, 1890s-1990s: Exemplars, Institutions and Vectors", *Journal of Islamic Studies* (9) (2) (1998): 212.

⁸² Roff, "Patterns of Islamization", 212.

were then asked to surrender it to the council.⁸³ The measure began a chain reaction whereby other states gradually put the collection and distribution mechanism into the hands of their respective religious councils. A similar system was adopted in Perlis in 1930, Johor in 1934, Kedah in 1936, Selangor in 1952, Pahang 1956, Pulau Pinang and Melaka in 1959 and Federal Territory in 1974.⁸⁴ The system of collection and disbursement has been stipulated in individual states' respective religious enactments which more or less resemble each other.⁸⁵ The councils also have adopted broadly similar systems whereby zakat is governed by a unit or division under the bodies.⁸⁶

Generally speaking, the functions of the councils since their formation have included the management of zakat, Islamic trusts and other contributions of money or property from any person for the benefit of Islam. Besides that, the councils have been sole trustees of all mosques in their respective states, with the exclusive right to grant permission for the erection of new mosques.⁸⁷

The general situation since the formation of the zakat institution up to the decade of the 1960s could be summarized as one of little revenue and ineffective disbursement. Although, administratively, religious councils were formed as authoritative bodies for governing the fund, and were supported with necessary law, these measures seemed unable to convince people to pay zakat to them.

As far as the collection was concerned, religious councils focused only on the most easily collected wealth. In this case, the zakat on cereal, namely, unhusked rice and *al-fiṭr*, had been the source the councils sought out most.⁸⁸ It is interesting to

⁸³ Moshe Yegar, *Islam and Islamic Institutions in British Malaya* (Jerusalem: The Magnes Press, 1979), 217.

⁸⁴ For further discussion about the history of the advent of zakat institution please refer: Ahmad Ibrahim, *Islamic Law in Malaya* (Singapore: Malaysian Sociological Research Institute Ltd, 1965), 335-349; Yegar, *Islam and Islamic Institutions*, 216-222; Nasir, "Development of the Secular and Religious Taxation", 207-252.

⁸⁵ To name but a few are Pahang Administration of the Law of Religion of Islam Enactment 1956, Selangor Administration of Muslim Law Enactment 1952, Kelantan Council of Religion and Malay Custom and Kathis Courts Enactment 1953. See Ibrahim, *Islamic Law*, 335-349.

⁸⁶ Jabatan Perdana Menteri, *Laporan Kajian Penyusunan Semula Majlis/Pejabat Agama Islam Negeri-negeri*, (Kuala Lumpur: JPM, 1984), 24.

⁸⁷ Abdul Majeed Mohamed Mackeen, *Contemporary Islamic Legal Organization in Malaya*, (Michigan: Yale University Southeast Asia Studies, 1969), 41.

⁸⁸ In fact, Kedah only oblige payment upon cereals and leave *al-fiṭr* for the individual payers to disburse themselves. Ismail Muhd Salleh and Rogayah Ngah, "Distribution of Zakat Burden on Padi Producers in Malaysia", in *Some Aspects of the Economics of Zakah*, ed. M. Raqibuz Zaman (Plainfield: The Association of Muslim Scientists, 1980), 82.

remind that the *al-fiṭr* is an obligatory payment for all Muslims, without exception, to be paid during *Ramaḍān*.⁸⁹ Muslims in Malaysia have seldom been known to evade the payment of *al-fiṭr*, since they regard it as an undying and unquestionable feature of *Ramaḍān*. In this month, Muslims tend to exhibit their commitment to Islam through, amongst other things, charitable acts.⁹⁰ Apart from that, as a payment to the value of approximately two and half kilograms of rice for each individual, *al-fiṭr* is relatively cheap and almost all Muslims can afford to pay.⁹¹

As the *al-fiṭr* can be easy to collect, it seemed that the religious councils took the opportunity presented by a duty that the majority of people had never failed to perform.⁹² Another advantage was that Muslims could assess their payment without any complicated estimate from the council. For the collection process, the majority of states appointed a local agent to collect *al-fiṭr*, in return receiving a portion, normally one-eighth, of the collection.⁹³ Hence, the councils did not have to appoint any permanent staff.

The zakat on cereal (rice) was another type of wealth that caught the immediate attention of the religious councils as a resource to monitor. In 1960s, approximately 85% of Malays still resided in rural areas where rice cultivation was a main contributor to the rural economy, showing clearly that it was among the largest economic sectors associated with Muslims in the country.⁹⁴ Apart from that, as stated above, the zakat on rice had been collected since the nineteenth century as payment for religious teachers. These factors explain why the religious councils chose rice as a key target, especially as, in this case, the council was maintaining a pre-existing practice. For this type of wealth, religious councils has also empowered local agents to make collection.⁹⁵

As to the overall practice of collection of the fund through the zakat institution from its establishment until the end of the 1960s, we can generally suggest that its

⁸⁹ Ghazali, "Zakat Administration", 95; Aidit Ghazali, *Zakat, Satu Tinjauan* (Petaling Jaya: IBS, 1988), 48-49.

⁹⁰ Ghazali, "Zakat Administration", 95.

⁹¹ Ghazali, *Zakat, Satu Tinjauan*, 50.

⁹² Ghazali, "Zakat Administration", 95.

⁹³ Ghazali, *Zakat, Satu Tinjauan*, 20; Ghazali, "Zakat Administration", 95.

⁹⁴ Fred R. von der Mehden, "Communalism, Industrial Policy and Income Distribution", 248; Mehmet, *Development in Malaysia*, 37.

⁹⁵ Ghazali, *Zakat, Satu Tinjauan*, 20.

achievement was rather unsatisfactory. Perak Religious Council, for example, in 1957 collected only RM 223,192.87, while in Negeri Sembilan, the state religious council in 1960 managed to collect RM 54,233, in both states mainly derived from *al-fitr* and rice.⁹⁶ Another state, Melaka, collected RM 113,281 and RM 109,035 respectively in 1961 and 1962, more than 90% of which sums came from *al-fitr* contributions.⁹⁷ These figures perhaps do not convey anything in themselves, but if we compare them to the collected sums discussed in later sections, we shall see how great the difference is and get a glimpse of the underdeveloped state of the zakat institution during this era.

Like the collection side, disbursement was also ineffective. Given that zakat is a lucrative resource under the purview of the councils, which, as seen above, receive a steady income from the collection, it is easy to understand how zakat was treated as a religious fund to finance religious projects and maintain administrative spending. Such a situation was exacerbated by the limited or nonexistent funding from state governments to the respective religious councils, forcing the latter to turn to zakat as their main financial support.⁹⁸ As a result, the major portion of the collection went on the expenses of administering bodies and other religious projects, such as the building of mosques and funding for Islamic schools, carried out within the recipient categories of *‘amil* (zakat agent) and *fi sabīl allāh* (in the way of Allah).⁹⁹ For instance, Kelantan, immediately following the enforcement of zakat collection under its religious council in 1916, had spent RM 5000 for mosque expenditure and other religious council spending, using only zakat money.¹⁰⁰ A similar pattern could be seen in other states in later decades. In Perak, in 1957, RM 113,426 out of RM 336,619 went on the religious council’s administrative expenditure.¹⁰¹ In addition, Melaka in the early 1960s used all collected zakat money, amounting to RM 57,808, for religious school expansion. In fact, in this state, some of the zakat money was put

⁹⁶ Nasir, “Development of the Secular and Religious Taxation”, 233, 226.

⁹⁷ Nasir, “Development of the Secular and Religious Taxation”, 222.

⁹⁸ Muhammad, *Zakat and Rural Development*, 124.

⁹⁹ Muhammad, *Zakat and Rural Development*, 124-125; Ghazali, “Zakat Administration”, 100; Jabatan Perdana Menteri, *Laporan Kajian*, 38.

¹⁰⁰ Muhammad, *Zakat and Rural Development*, 124.

¹⁰¹ Nasir, “Development of the Secular and Religious Taxation”, 233.

into special account called general administration spending (*pentadbiran Am*), clearly reflecting how the money was mainly used.¹⁰²

As is apparent from the usual collection and disbursement procedures, the religious councils generally did not have the knowledge required to administer and utilize the fund effectively. This situation indirectly suggested that the collection and disbursement of zakat during this era was considered purely from the religious point of view, as a means of enabling Muslims to fulfil their obligations. Religious councils at that time had yet to realize the potential of the fund beyond the religious perspective, especially in the economic sphere.

Ultimately, anomalies appeared in the practice of zakat at that time. For example, the collection of zakat on cereal was actually a tax on the poor, despite the principle that zakat should flow from the rich. Such a practice indeed burdened the poor, especially the rice planters, who were among the country's groups recognised as poor. The government estimated that in 1970, 88% of them were considered to be living below the poverty line.¹⁰³ The problem arose when the religious councils, without taking account of the actual income of the producers, imposed a flat *ad valorem* rate of 10% zakat on gross rice production. Such a practice was burdensome to those landless tenant farmers whose operating costs were much higher than the costs of those who farmed independently.¹⁰⁴

Apart from that, there were many weaknesses such as the lack of reports and systematic records. Religious councils seldom disclosed collection and disbursement statistics, or released periodic information as to what had been done with the zakat money. This is actually not surprising, considering that the religious councils themselves did not have a clue as to how to administer the fund effectively. Many religious councils only relied on the local agents to disburse the collection according to their personal preferences before submitting the balance to the councils. Once the money reached the council offices, it was normally kept in the council's account without being fully distributed. For example, Negeri Sembilan in 1960 only managed to disburse RM 2000 out of RM 54,233. Ultimately, as found by researchers in later

¹⁰² Nasir, "Development of the Secular and Religious Taxation", 222.

¹⁰³ Mehmet, *Development in Malaysia*, 37.

¹⁰⁴ Salleh and Ngah, "Distribution of Zakat", 82.

decades, the payers did not feel they were deriving any benefit from the practice, with the result that they mockingly referred to the zakat as *zakat raja* (payment given to the ruler).¹⁰⁵

Another drawback of the religious councils, as machinery under the Sultan, was that their primary concern was to satisfy the ruler. The disbursement of zakat was also sometimes determined by the rulers, on occasion going towards less pressing needs, to the neglect of more serious issues. A popular example was the building of a state mosque in Kelantan in 1922 at a cost of approximately RM 300,000, with the result that no portion could be given to other beneficiaries. The project attracted criticism from, among many others, the former state *mufti*, on grounds of overuse of the zakat fund. Although strongly rejected, the project still went ahead.¹⁰⁶

Such collection and disbursement practices show plainly that the zakat administrators actually had no knowledge of economy. Had they possessed any economic understanding, they would have known that zakat was supposed to be collected from those with excess personal wealth after covering necessary expenses, and would not have simply imposed the zakat on the understanding that it had been suggested by classical jurists and was a traditionally accepted practice. As for the distribution, the fund should have been used for the improvement of Muslims' living conditions, since poverty and destitution were then still serious problems in Malaysia. These flaws in the way zakat was handled were found by some researchers in later decades to be among the causes of zakat evasion, as we shall see.

In sum, the era of early twentieth-century zakat saw the setting up the official collection and disbursement mechanism under the religious councils. The management of the fund by religious councils represented however, merely a small shift away from the religious leaders who were previously the main beneficiaries.

¹⁰⁵ James. C. Scott, "Resistance Without Protest and Without Organization: Peasant Opposition to the Islamic Zakat and the Christian Tithe", *Comparative Studies in Society and History* (29)(3)(1987): 431.

¹⁰⁶ William R. Roff, "The Origin and Early Years of the Majlis Ugama", in *The Origins of Malay Nationalism*, ed. William R. Roff (New Haven: Yale University Press, 1967), 148; Muhammad Salleh Wan Musa, "Theological Debates: Wan Musa b. Haji Abdul Samad and His Family", in *The Origins of Malay Nationalism*, ed. William R. Roff (New Haven: Yale University Press, 1967), 157; Muhammad, *Zakat and Rural Development*, 125.

Zakat was still collected from the majority of poor farmers on agricultural produce and also as *al-fiṭr*, leading to the small collection. In addition, distribution was directed mostly towards council administration rather than for the improvement of the generality of Muslims. What we can say is that Muslims' basic understanding at the time was of their religious obligation to pay the zakat. From the standpoint of rulers and religious councils, the fund was necessary to help religious institutions to function. Economic significance had not yet entered the perspective of either group.

5.4.2 Zakat after the Islamization era – zakat for development

In later decades, the practice of zakat in the country gradually changed. Looking back to the earlier part of the chapter, we recall the decades of the 1970s and 1980s, which saw the Islamization of society whereby people seemed to be returning to Islam in their daily lives. Zakat was also gradually shown concern by Muslim society. Such a progression was positively supported by the government in the 1990s when it set up a corporatization model that could accelerate the collection of the zakat. From then on, zakat was increasingly used to improve the living conditions of its recipients through poverty eradication and income generation.

This section, hence, was divided into two parts, first covering zakat in the 1970s and 1980s and later surveying the succeeding decades. In the former era, we could see initiatives mainly from society and to a lesser extent from government towards reviving zakat. Researches in these decades began to reveal many malpractices and to expound the “economic side” of zakat. The latter period saw the more practical model of zakat administration introduced by the government in the 1990s. This part will eventually show the closer connection of the fund with development.

1. 1970s and 1980s: reviving zakat in society

The 1970s, were the period in which Islamic consciousness among Muslims in Malaysia was widely revitalized. As a result of the new phenomenon, the implications for the zakat institution slowly emerged. Muslims in Malaysia started to show their concern over the institution, as manifested in their patterns of zakat payment and also through frequent discussions and writings.

The role of the religious movement itself cannot, however, be ignored. Although it is not easy to measure accurately the extent to which religious movements in the 1970s and 1980s contributed to the increase in zakat payment awareness, as no research was done specifically to assess the phenomenon, there are a few respects in which we can relate the movements to the zakat question.

For example, among their activities for reviving religious awareness, ABIM has actively provided its members with religious knowledge through its circular discussion (*usrah*) and by popularizing books by international Islamic thinkers such as al-Mawdudi, Rashid Ridha, Sayyid Qutb and many others.¹⁰⁷ We believe that also, through these activities, al-Qardawi's book on zakat gained circulation in Malaysia; in the early 1980s the book was listed in an article on zakat written by a member of the group.¹⁰⁸ As mentioned in an earlier chapter of this thesis, such thinkers are among those suggesting zakat as taxation policy for an Islamic state and associating the religious obligation with development. Hence, we can safely say that, in this respect, ABIM has to an extent helped to spread the idea among Muslims in the country. Indeed, in later decades, the idea of associating zakat with development was frequently seen in researches and writings. We shall return to this point later.

Another local movement, Tabligh, also played its part in reminding Muslims to fulfil their obligation of paying zakat. A specific book, entitled "*Fadā'il al-Ṣadaqa*" (exhortation to give away) was authored by the nephew of its founder in the 1960s. It has been translated into the Malay language, and was perhaps in circulation locally in the 1970s or 1980s, as suggested by the fact that it was reprinted for the fourth time in the 1990s.¹⁰⁹ Frequently read by Tabligh members as a standard text after congregational prayers, the book has devoted a section of almost a hundred pages to the subject of zakat, touching on many important aspects, from the exhortation to the punishment for evading payment.¹¹⁰ Looking at the discussion, which mainly comprises a collection of hadith, we see that its general purpose is to remind Muslims of their obligations. As the book nowhere proposes that readers

¹⁰⁷ M. Kamal Hassan, "The Influence of al-Mawdudi's Thought on Muslims in Southeast Asia: A Brief Survey" *The Muslim World* (93)(2003): 431; Anwar, *Islamic Revivalism*, 13.

¹⁰⁸ Ghazali, *Zakat, Satu Tinjauan*, 107.

¹⁰⁹ Maulana Muhammad Zakariya, *Fadhilat Sedekah*, trans. M.N. Humayun Chaudhury, (Kota Bharu: M.N. Mayun Enterprise, 1998)

¹¹⁰ Zakariya, *Fadhilat Sedekah*, 339-414.

fulfil their obligation through the movement, we can safely say that members or sympathizers responding to its exhortation would, in accordance with local practice, surrender their payment to the religious council.

Besides the propagation effort by the movements calling for an Islamic resurgence, in the 1970s there appeared a number of studies pertaining to the practice of zakat. Rogayah Ngah and Ismail Muhd Saleh in 1978, for instance, researched the effect of zakat on rice planters and suggested that the zakat system was a burden on poor farmers. Of almost 600 farmers studied, half were supposed to be exempted from the obligation due to their poor economic condition which was mainly that of landless tenants.¹¹¹ That was why only 32% payment was made to the religious council, the majority of farmers preferring to personally disburse the payment or evade it altogether.¹¹² The system of taxing 10% of gross production, according to the authors, seemed to impoverish the farmers. As the objective of zakat was to alleviate poverty, such a system of collection seemed to point in the opposite direction. They eventually proposed the use of net production as the basis of taxation to ensure that only rich farmers with excess produce would be taxed.¹¹³

What is interesting about this research, apart from its findings, is that it was presented at a seminar organized by the Association of Muslim Social Scientists, a Muslim international organization in America which was connected with local religious movements, especially ABIM. Hence, we can trace a potential relation between the writers and the movement, either as members or at least as open to ideas suggested by the movement, including the association of zakat with development.

Besides being studied by local researchers, the practice of zakat in this period drew the attention of international scholars. A study was conducted by James C. Scott between 1978 and 1980 pertaining to the practice of zakat on rice in Kedah.¹¹⁴ The discussion mainly reveals the pattern of avoidance of payment by the farmers, which he categorizes as an act of resistance without protest.¹¹⁵

¹¹¹ Salleh and Ngah, "Distribution of Zakat", 86.

¹¹² Salleh and Ngah, "Distribution of Zakat", 83.

¹¹³ Salleh and Ngah, "Distribution of Zakat", 114.

¹¹⁴ Scott, "Resistance Without Protest", 419.

¹¹⁵ Scott, "Resistance Without Protest", 419.

According to the author, dissatisfaction among contributors over the way the zakat was disposed of was among the main factors in the resistance. As earlier stated in chapter two, the fund must be dispersed to the eight groups of entitled recipients with the focus should be given to the more deserving poor and needy. It was not however the case in the researched area where it was widely believed that the disbursement was often secured payment for those who were not in dire need. In his study, Scott briefly showed that spending of councils for religious schools in 1970 frequently received more than 50% of the collected sum. *Āmil* (collectors) was given 22%, far exceeding the portion surrendered to the poor who received merely 15% from the due.¹¹⁶ Such a pattern of distribution seemed to show clearly that the farmers' argument was not baseless.

Events up to this point indicated that the 1970s were the era in which the religious movement revived, helping society to find a different meaning in zakat beyond religion. There were also some researches yielding knowledge of the real problems surrounding traditional zakat practice in the country. These studies provide a general picture of anomalies such as taxation of the poor instead of the rich and disbursement to the non-poor. It was clear that the administration of zakat, based on the findings of these studies, should be looked at from a development perspective.

Perhaps due to the situation of renewed and increasing interest, from the end of the 1970s and throughout the 1980s the government organized several seminars related to zakat. In 1977, for example, through the prime minister's department, the government arranged a meeting of officials from all state religious councils to discuss religious questions, including zakat. Among matters related to the fund was the need to give greater attention to disbursement for poverty eradication and to extend the taxation base beyond zakat on cereal and *al-fiṭr*.¹¹⁷ Such ideas and proposals were touched on again in later seminars such as National Talk on Zakat 1984 and the National Seminar on Coordination of Zakah and Income Tax 1988. We shall discuss these seminars in a later section which specifically deals with poverty alleviation.

¹¹⁶ Scott, "Resistance Without Protest", 433.

¹¹⁷ "Zakat, Tidak Banyak Golongan Korporat Menyumbang", *Al-Islam*, Oktober, 1996, 28.

Apart from seminars, the federal government organized a study in 1984, involving all state religious councils, to suggest improvement mechanisms in the organizations, including aspects related to zakat.¹¹⁸ Throughout the study, religious councils were generally found to have no efficient system of collection, so that the distribution ended up being insufficient for any societal improvement.¹¹⁹ The committee hence recommended that the management of the fund should be separated from the council and placed with an autonomous body which could be more independent and could focus on zakat administration. The committee also recommended that the zakat account should be kept separately from the other charity accounts for ensuring that the funds were spent appropriately.¹²⁰ On examination, this suggestion can be seen as the root of the new type of organization which was to emerge in the next decade.

Due to continuous effort by the movement and the gradual process of religious awareness, there was a slight change in the pattern of zakat collection at the end of 1980s, with collection from other sources, especially business and commerce, becoming quite visible. Although, at this period, *al-fitr* in most states was still more than 50% of the annual total collected sum, other types of zakat to a lesser extent were also submitted to the body.¹²¹ Johor, for instance, collected business contributions of between approximately RM 200,000 and RM 300,000 from 1982 through 1985, while for the same period Terengganu collected between RM 80,000 and RM 160,000.¹²² Other states such as Federal Territory, Selangor and Negeri Sembilan showed a more or less similar pattern.¹²³ In view of the fact that during this period the payment had to be voluntarily submitted to the main offices of the religious councils, since in most states agents were still not mandated to collect payment from sources other than cereal and *al-fitr*, such an increase in the absence of a proper collection system indicated growing awareness among Muslims.

¹¹⁸ Jabatan Perdana Menteri, *Laporan Kajian*, vii.

¹¹⁹ Jabatan Perdana Menteri, *Laporan Kajian*, 38.

¹²⁰ Jabatan Perdana Menteri, *Laporan Kajian*, 24-25.

¹²¹ Ghazali, "Zakat Administration", 95-99; Abdul Fatah Khalid, "Islamic law and land in the State of Selangor, Malaysia; Problems of Administration and Islamization", Phd Thesis, University of Edinburgh, 1988, a ppendix D; Nasir, "Development of the Secular and Religious Taxation", 217,222,223.

¹²² Ghazali, *Zakat, Satu Tinjauan*, 96-103.

¹²³ Ghazali, "Zakat Administration", 95-99; Ghazali, *Zakat, Satu Tinjauan*, 96-103, Khalid, "Islamic Law and Land", 348.

As far as disbursement was concerned, although the process had somehow encompassed most eligible recipients, no significant change could be seen. In Pahang a poor person received only about RM 60 annually in the 1970s.¹²⁴ At the same time Selangor gave a poor person RM 20, disbursed only once a year.¹²⁵ In Kedah between 1981 and 1983, the disbursement for administration of the religious council was still three times higher than that for the poor and needy combined.¹²⁶ In the end, most of the money went on administrative expenses, while the poor and needy received an annual sum which was not enough to meet their basic needs.¹²⁷ These facts were unsurprising, since at this point there was still no change in the organizational setup of the councils, so that disbursement for poverty alleviation had yet to be put in practice, and the idea of using the fund for that purpose remained very much on a theoretical basis, as a subject for discussion at seminars.

In sum, the era of the 1970s and 1980s was one in which the zakat issue began to receive some limited impact from Islamization. The effort to cultivate religious awareness had to a certain degree revived Muslims' awareness of the need to fulfil their obligations. The movement also had promoted some international thinkers who associated the fund with development, an idea later reflected in researches and zakat writings.

During this phase, as zakat was increasingly studied, traditional collection practices began to be questioned and better practices were suggested. In these researches, therefore, we could see a sign of improvement and of an ongoing process of finding better ways of administering zakat.

In the decade of the 1980s, the improvement which had been earlier initiated from the bottom began to receive encouraging signs of acceptance from the government. The government organized a study to detect any weaknesses in the religious councils' administration, including the zakat mechanism. Although all the effort in this phase was still in many ways theoretical in nature, with no evidence of

¹²⁴ Mohd Ali Baharom, *Zakat Ditinjau dari Perspektif Sosial, Undang-Undang dan Taksiran* (Kuala Lumpur: ABIM, 1989), 43.

¹²⁵ Wahab *et.al*, "Case Study: Malaysia", 368.

¹²⁶ Muhammad, *Zakat and Rural Development*, 203.

¹²⁷ Jabatan Zakat Kedah, *Laporan Aktiviti-Aktiviti Zakat Negeri Kedah Bagi Tahun 1986-1990* (Alor Star: JZK, 1991).

prompt reaction from the councils in the form of acting upon the recommendations, we can trace the basic foundation of a better kind of zakat practice, which in later decades would prevail as the preferred model for managing the fund. More substantial progress eventually took place in the 1990s.

2. 1990s onwards: zakat for development

An important turning point for zakat administration began in the early 1990s. The collection system was improved through the process of corporatization, and disbursement was assigned a greater focus on poverty eradication, in line with national economic plans. The process reflected a keen effort in the context of Islamization to empower Muslims economically.

Corporatization is a new model of zakat collection, through the establishment of a company or corporate organization managing the fund, which is autonomously responsible for the complete range of activities such as organizational set up, hiring and training staff and any activities involved in zakat collection.¹²⁸ The company must collect a sufficiently large amount of zakat on behalf of its parent organization (the State Religious Council) to ensure that the organization can run viably, and in return the company receives the agent's portion to a maximum of one eighth of the zakat sum.¹²⁹

The model was introduced by the federal government through the Islamic Religious Council of Federal Territory (IRCFT) in 1991. It is worth noting that religious affairs in the federal territories are indirectly under the federal government's control, with the Minister supervising religious affairs in the Prime Minister's Department holding the chairmanship of the religious council.¹³⁰ The close interrelation between federal machinery and religious administration in Federal Territory has led to the improvement of religious administration in this area by the federal government, as it is easier to implement there than in the other states.

¹²⁸ Pusat Pungutan Zakat, *Laporan 2000-2001* (Kuala Lumpur: PPZ, 2002), 111.

¹²⁹ Pusat Pungutan Zakat, *Laporan 2000-2001*, 111; Kikue Hamayatsu, "Islamisation, Patronage and Political Ascendancy, The Politics and Business of Islam in Malaysia", in *The State of Malaysia, Ethnicity, Equity and Reform*, ed. Edmund Terence Gomez (London: Routledge Curzon, 2004), 232-233.

¹³⁰ Refer to the provisions from Section 4(1), Administration of Islamic Law (Federal Territories) Act 1993, (Act 505). <http://www.scribd.com/doc/10884938/Administration-of-Islamic-Law-Federal-Territories-Act-1993-Act-505>, (accessed 23 July 2010).

The concept of zakat corporatization was the brainchild of a former state chief minister, with strong support from the then minister in the Prime Minister's Department. It began with a discussion between both individuals in 1989, in which the former voiced his opinion to the latter on how to improve the zakat collection system.¹³¹ In the meantime, a local magazine estimated value of zakat that could be collected throughout Malaysia was RM 325 million, which far exceeded the actual RM 18 million collected annually, suggesting that the institution was extremely undermanaged.¹³²

The statistic revealed by the magazine trickled through to evoke a positive response from the minister, who later granted approval from the IRCFT for an endowment of RM 750,000 to finance the organization's initial establishment.¹³³ The organization was set up as a private limited company under the name of Pusat Pungutan Zakat (Zakat Collection Center or ZCC), a subsidiary of the IRCFT, and was officially launched by Prime Minister on March 1991.¹³⁴ The organization then set a zakat collection target of RM 60 million, the sum estimated to accrue from an effectively managed zakat institution.¹³⁵

What the former minister and the minister introduced could actually be associated with the then current practice of the Malaysian government in pursuing its governance strategy. Since the early 1980s, the federal government has introduced and implemented corporatization, also called privatization, whereby it transferred its ownership of services, business or companies to private hands. This could be done by leasing, contracting or selling its ownership fully or partially, eventually shifting its burden to corporate companies, so that the latter could perform the duty hitherto carried out by the former while presumably generating profit at the same time.¹³⁶ From 1983 until the early 1990s, the government corporatized many previously

¹³¹ Abd Rahim Bin Abu Bakar, Speech text in official launching of corporate zakat collection in PPZ, 8 Mac 1991.

¹³² Bakar, Speech text.

¹³³ Abdul Rahim bin Abu Bakar, "Teks Syarahan Seminar Budaya Pengurusan Zakat di Malaysia: Profesionalisme Berbanding Tradisionalisme" in Pusat Pungutan Zakat, *Laporan Zakat 2006* (Kuala Lumpur: PPZ, 2007), 115.

¹³⁴ Pusat Pungutan Zakat, *Laporan Zakat 1992* (Kuala Lumpur: PPZ, 1993), 2.

¹³⁵ Bakar, "Teks Syarahan", 115.

¹³⁶ Jomo K. Sundaram and Tan Wooi Syn, *Privatization and Renationalization in Malaysia: A Survey*, Research Paper, University Malaya, 2003, published in www.Jomo.org (accessed, 23 July 2013)

public services, including TV3, the first private broadcasting company (1983), Kelang Container Terminal (1986), the main port service provider at the time, Telekom (1987), telecommunication services, and Pos Malaysia (1992) postal services.¹³⁷

The government of the day preferred such a method, believing that the private sector could deliver more effective services, since the state sector was regarded as rather slow and inefficient in that respect. Apart from that, the practice could simultaneously accelerate the participation of Malays in the corporate sector, which was heavily dominated by the ubiquitous Chinese. This consideration formed part of an approach to the government's objective of helping Malays.

As the idea of corporatizing zakat issued from someone who had formerly been part of the government, it may have reflected events taking place at that time, so that perhaps regarding it as a completely new idea of his would not be appropriate. With due credit to the person behind the idea, it may be more accurate to say that the initiator was influenced by the mood of the then government, inasmuch as the action was expected to improve the zakat management.

This is not to say that the corporatization of zakat was completely akin to that of corporatization in Malaysia. Zakat was still held by the IRCFT without any involvement from outside parties, and was not expected to generate profit, or even, in the case of the initial establishment, to be repaid. The main similarity lies in the fact that the administration since then has been in the hands of people who could be considered more knowledgeable in fund management.

This is also not to suggest that corporatization is the only or best way to remedy inefficiency in management of an organization. In later decades, there were indeed a few such cases, despite the increase in effectiveness, there were also some adverse effects of corporatization such as the increase in costs and losses in number of services.¹³⁸ However, in the eyes of IRCFT, the idea was undeniably a feasible way to make significant improvements on the traditional practice, which had been proven to be far from effective; and perhaps it was the most practical choice, at least

¹³⁷ Sundaram and Syn, *Privatization and Renationalization in Malaysia*, 24-34.

¹³⁸ Sundaram and Syn, *Privatization and Renationalization in Malaysia*, 25, 34.

at the time. It is also fortunate that the performance of zakat management is much stronger than previously, as will be seen shortly.

By contrast with the collection system of the traditional zakat institution, the collection of zakat has since been recorded in a computerized system with professionally trained staff selected from various academic backgrounds.¹³⁹ The ZCC also has applied a methodical marketing strategy by offering zakat payers a convenient environment in which to pay zakat.¹⁴⁰ It introduced a variety of ways for payers to submit their payment such as through collection counters, through associated banks, by the postal service, by salary deduction or online.¹⁴¹ The ZCC no longer relied solely on local agents. All these practices are actually approaches and strategies which could be encountered in a modern business and economic context.

Besides collecting more zakat, the ZCC also aimed to increase the population's awareness of their zakat obligation.¹⁴² To this end, the ZCC's officers delivered up to 600 talks and discussions annually, especially in the early years following its inception.¹⁴³ In addition, the ZCC has from time to time published reports of its activities so that payers can see how much the current zakat collection amounts and how the money is spent. Such reports will build payers' trust in the ZCC and indirectly encourage them to contribute more.

In this context, the ZCC has used the method of persuasion rather than coercive legal enforcement. Looking at this approach to attracting payment, we could regard it as an act of propagation, creating an incentive among Muslims to contribute to the fund, a function previously carried out by the religious movements. Hence, this phase of Islamization was reflected in the government's not merely establishing a proper form of zakat administration, but also seeking a stronger commitment from the masses to fulfill their religious obligations.

As far as the collection base is concerned, besides the traditional sources of wealth such as *al-fitr* and cereal, the ZCC has been to a greater extent targeting the

¹³⁹ Pusat Pungutan Zakat, *Laporan Zakat 2008* (Kuala Lumpur: PPZ, 2009), 16.

¹⁴⁰ Bakar, "Teks Syarahan", 116-117.

¹⁴¹ <http://zakat.com.my/cara-bayar-kaunter-bank>, (accessed 26 July 2010); Pusat Pungutan Zakat, *Laporan Zakat 1996* (Kuala Lumpur: PPZ, 1997), 50.

¹⁴² Pusat Pungutan Zakat, *Laporan Zakat 1993* (Kuala Lumpur: PPZ, 1994), 2.

¹⁴³ PPZ has organized 607 zakat talks in 1991, 417 in 1992, 140 in 1993, 116 in 1994 and 154 in 1995. Please refer to zakat reports in the respective year.

wealth associated with urban based economic activities, levying zakat on professional income, business and savings. Indeed, in this respect, the ZCC has implemented the strategy proposed by researchers in earlier decades, by turning their attention to rich Muslims rather than taxing the non-eligible poor. Such a shift also suited general economic conditions among Malays in this decade, approximately 35% of whom were already situated in urban areas and actively involved in urban-based economic activities.¹⁴⁴ In the early 1990s in Federal Territory alone, there were 480,000 Muslim Malays resident out of a total of 1.5million, giving the ZCC a large supply of potential payers to approach.¹⁴⁵

The new form of zakat management has succeeded in increasing the collection. In its first year of operation, for example, the ZCC attracted 11,816 payers, with 17,326 payers in the subsequent year. Based on the analysis of collection in 1992, it was found that 66% of the collection consisted of zakat on professional pay, business and savings, wealth mostly derived from the middle and upper class communities.¹⁴⁶ This new focus on the type of wealth to be sought seemed to be widely accepted by Muslims.

The performance of the new organization has indeed been encouraging, especially when compared to the collection record under the old system, which reached less than RM 7 million per year. It was more than doubled in the first year and has consistently increased since then. The collection records from the system's inception through 2008 are as follows:

Table 5.5: Zakat Collection in Federal Territory from 1991 to 2008

Year	Amount (RM million)	Year	Amount (RM million)
1991	13.5	2000	56.1
1992	20	2001	70.3
1993	25.6	2002	80.8
1994	33.1	2003	92.9

¹⁴⁴ Government of Malaysia, *Fifth Malaysia Plan 1985-1990* (Kuala Lumpur : Government Printers, 1985), 135.

¹⁴⁵ Pusat Pungutan Zakat, *Laporan Zakat 1993*, 9; Pusat Pungutan Zakat, *Laporan Zakat 1994*, 4; Abu Bakar, "Teks Syarahan", 118; Abu Sufian Abu Bakar, "Baitulmal dan Kemiskinan di Kuala Lumpur: Program Agihan Zakat dalam Bentuk Perniagaan", in *Zakat, Pensyariatan Perekonomian dan Perundangan*, ed. Abdul Ghafar Ismail *et.al* (Bangi: UKM, 2006), 228.

¹⁴⁶ Pusat Pungutan Zakat, *Laporan Zakat 1992*, 8.

1995	32.3	2004	106.7
1996	41.3	2005	126.7
1997	50.6	2006	143.3
1998	43.6	2007	169.2
1999	33.6	2008	206.3

Sources: Pusat Pungutan Zakat, *Laporan Zakat*, various issues.

Looking at the table, we can clearly see that the collection has increased considerably every year. Between 1991 and 1999, the fund collection increased 149%, while from 2000 to 2008 the increment reached as high as 267%. Indeed, the increase in collection as shown above represents a genuine rise in payment and a better collection system. To support this argument we can compare the incremental rate of the collection with data showing the rise over time in the national per capita income of Malaysians.

According to government records, the annual per capita income rose 45% during the 1990s (from RM 9852 in 1990 to RM 14317 in 1999) and 27% for the period from 2000 through 2008 (from RM 15221 in 2000 to RM 19296 in 2008). Comparing the increment shown by the two records (zakat collection and national income), we can see clearly that the swell in the former tremendously outweighed that of the latter. Had the rise in zakat collection been mostly due to improvement in the people's economic condition, as might otherwise be argued, the two records would show a similar pattern with only a slightly varying, higher or lower, rate of increment.

Based on this brief comparison between the increase in zakat collection which has been at an all-time high, and the more modest rise in national per capita income, we can safely suggest that the significant change in the payment pattern has been mainly due to the better management of the fund through corporatization.¹⁴⁷

In short, we could say that the corporatization of zakat collection in the Federal Territory marked a significant change in the zakat institution in Malaysia. It has also inspired other states to follow suit. The overwhelmingly positive reaction was evident as soon as the body was established. The ZCC received numerous group

¹⁴⁷ Information about national per capita income is provided by Malaysian Central Bank.

visits from other state religious councils curious about the new mechanism of collection, and became the main reference point for states interested in improving their zakat institution.¹⁴⁸

Consequently, a number of states adopted a similar model a few years later. Penang and Selangor, for example, corporatized their zakat management in 1995, followed by Pahang in 1996 and Melaka and Negeri Sembilan, both in 2000.¹⁴⁹ Recent developments have shown that only a few states (Kelantan, Terengganu, Perlis and Kedah) still keep the collection under the direct control of religious councils. However, they too have benefited from the development by making some changes, including the use of comprehensive computerized systems, and gradual adoption of some new administration practices.¹⁵⁰

After corporatization appeared to have successfully increased the fund collection, the government later turned to helping religious councils to disburse more effectively. Effective disbursement was considered a challenge to be met in order to sustain the rise in zakat collection, as payers were more likely to monitor closely the way the fund was disbursed.¹⁵¹

Ultimately, the government called for zakat to become a development institution for Muslims. In Federal Territory, the government helped the IRCFT to improve its disbursement systems by developing a computerized system in which the information and data of eligible recipients could be stored and easily retrieved. The system could also help the council to generate the necessary periodic reports.¹⁵² Apart from that, the ZCC established a unit to act as intermediary between the IRCFT and the Muslim community, through which any application for zakat funds could be channelled.¹⁵³

¹⁴⁸“Pungutan Zakat WP Menjadi Contoh”, *Harian Metro*, 21/1/1992; Ab Rahim Zakaria, “Pengurusan Zakat Kontemporari”, *Jurnal Pengurusan JWZH*, (1)(1)(2007): 16.

¹⁴⁹ Zakaria, “Pengurusan Zakat Kontemporari”, 16.

¹⁵⁰ See for example: Baitulmal Negeri Perlis, “Peranan Baitulmal Perlis” in *Buletin Baitulmal*, 2nd edition, 2009, 1; http://e-maik.my/index.php?option=com_content&view=article&id=263&Itemid=604, (accessed 27 August 2010); <http://www.maj.gov.my/utama.htm>, (accessed 27 August 2010).

¹⁵¹ Pusat Pungutan Zakat, *Laporan Zakat 1995* (Kuala Lumpur: PPZ, 1996), 2.

¹⁵² Pusat Pungutan Zakat, *Laporan Zakat 1995*, 54; Nor Asmah Hassan, “Peranan Baitulmal Wilayah Persekutuan Dalam Agihan Zakat: Satu Penilaian” Project Paper, University of Malaya, 1995, 87-90.

¹⁵³ Pusat Pungutan Zakat, *Laporan Zakat 1995*, 52.

Government ministers have also made personal appeals for the zakat to play a more active role in the economy. In 1998 the minister of religious affairs, for example, stressed that zakat should focus on poverty eradication and release the poor completely from poverty.¹⁵⁴ In 2000 the minister again issued the same call for the zakat institution to help the government to eradicate poverty. This time he urged that zakat bodies should play a more important part as Muslim development agencies (*agensi pembangunan ummah*).¹⁵⁵ Considering such appeals, it is not surprising that the portion for the poor and needy has been gradually increasing over the years. The IRCFT the same year increased the disbursement for the poor and needy to approximately 26% of total disbursement.¹⁵⁶

Actually, since the 1990s, the government also has suggested in its economic plans that religious funds, including zakat, should be used for the benefit of Malay Muslims, to whom the government has briefly stated its commitment to give necessary advisory aid. In 1991 for example, the government clearly spelled out its intention to improve the management and the use of resources generated by Islamic institutions especially those relating to zakat, *waqf* (religious endowment) and *baitulmal* (Islamic treasury) in its long-term economic plan (1991-2000). The objective will ensure that the various socioeconomic programmes undertaken by these institutions will be more effectively integrated with the national planning effort. Towards this end, appropriate consultative and research works should be carried out to identify the potentials and opportunities for utilizing these resources for the progress of the Malay Muslims community.¹⁵⁷ Indeed the introduction of corporatization could be seen as part of the support earlier mulled by the federal government.

The pattern of fusing Islamic institutions has been continuously spelled in the subsequent plans. In another government long term plan (2000-2010), it was also suggested that religious funds should be intensified and developed so that the

¹⁵⁴ “Draf Enakmen Pembayaran Zakat Diatur”, *Berita Harian*, May 6, 1998.

¹⁵⁵ Majlis Agama Islam Wilayah Persekutuan, *Laporan Tahunan 2000* (Kuala Lumpur: MAIWP, 2001), 3.

¹⁵⁶ Jaafar Ahmad, “Bantuan Golongan Fakir Miskin Melalui Sumber Zakat dan Bukan Zakat: Satu Pendekatan Bersepadu” in *Zakat, Pensyariatan Perekonomian dan Perundangan*, ed. Abdul Ghafar Ismail *et.al* (Bangi: UKM, 2006), 112.

¹⁵⁷ http://www.epu.gov.my/chapter1?p_p_id=56_INSTANCE_tQQe&p_p_lifecycle=0&p_p_state=normal&p_p_mode=view&p_p_col_id=column-4&p_p_col_count=1&page=4 (accessed 5 July 2012)

Malays' equity could accordingly increase. Similar to the preceding plan, the federal government gave proper aid through coordination and guidelines.¹⁵⁸ In this aspect, the government has established Jabatan Wakaf, Zakat dan Haji (Department of Waqf, Zakat and Haji), a new department under the Prime Minister's Department in 2004, designed to accelerate the development of religious institutions including zakat. As a new department, its contribution has been particularly to standardize zakat institutions across the nation. Until recently its role was mainly in the sphere of intellectual discourse; that is, organizing various seminars and publications as well as conducting research.¹⁵⁹ This is due to the fact that Islamic funds such as *zakat* and *waqf* were under the power of states in which federal government should handle it with care avoiding any unnecessary conflict with the former.

A recent development has also shown that zakat has been suggested as a tool of poverty eradication in the country.¹⁶⁰ Through his speech during the tabling of the motion on a short term economic plan, the then Prime Minister in 2006 called for the participation of religious authority to shoulder the poverty eradication of Malay Muslim and clearly claim it as *farḍ kifāya* (collective duty).¹⁶¹ Accordingly, he suggested that corporatization model should be emulated by other states.¹⁶²

With the significant achievement of the corporatization model, together with suggestions put forward by the federal government in seminars, studies and economic plans, the model has to a certain degree received a positive response from other state religious councils. As previously mentioned, many states later adopted the model in their zakat management. Additionally, the disbursement through time has been directed more towards poverty eradication, with increased attention paid to developing and empowering Malays. Such improvements in disbursement will be further elaborated on in the coming section which focuses on income generation.

¹⁵⁸ Government of Malaysia, *Third Outline Perspective Plan 2001-2010* (Kuala Lumpur: Government Printers, 2001), 98.

¹⁵⁹ Zakaria, "Pengurusan Zakat Kontemporari", 20.

¹⁶⁰ Government of Malaysia, *Ninth Malaysia Plan 2006-2010* (Putrajaya: Government Printers, 2006) 342-343.

¹⁶¹ Prime Minister Speech YAB Dato' Seri Abdullah Ahmad Badawi at the tabling of the motion on the Ninth Malaysia Plan 2006-2010, Dewan Rakyat, 31 March 2006, 22; Abdullah, the fifth prime minister has also shown his keen towards further continuing Islamization in government.

¹⁶² Government of Malaysia, *Ninth Malaysia Plan*, 342-343.

Looking back on the discussion in this particular section, we can conclude that the development of the zakat institution in the country has been directly influenced by the dynamics of the Islamization phenomenon in Malaysia. The evolution of the institution may be understood as rooted in the early twentieth-century form of its administration by religious councils. The religious councils at that time, however, simply collected and disbursed zakat without giving any thought to the impact of the practice on the wellbeing of Muslims. As a result, there were some anomalies in their practice such as taxation of poor farmers because of the focus on rural-based taxable wealth, leading to the small size of the collection. Ultimately, Muslims in general in the early and mid twentieth centuries were not keen to contribute to the fund, which at that time was still largely seen as a purely religious tradition.

In the 1970s and 1980s, the Islamization of society produced a gradual transformation in the perception of zakat. Through the influence of religious movements and also of some local writings and studies on zakat, the fund has been gradually linked with development, revealing its potential for improving the recipients' living conditions. These supporters also called for better administration of the fund.

Such a call was gradually heard by the government, which later initiated a number of seminars and studies. Eventually, in the 1990s, the government initiated a corporatization model. The model has successfully increased the amount of funds collected, in turn encouraging the zakat organization to introduce better distribution directed towards poverty eradication. Indeed, the Islamization process in Malaysia, initiated either by society or government, has gradually propelled the zakat to its role as a potent tool for economic development and the empowerment of Muslims.

5.5 Income Generation through Zakat in Malaysia

This section will clarify the income generation program, a distribution program which has emerged in Malaysia as a result of the new, expanding role of zakat as an institution for development and poverty eradication. It will be made clear that in turning the zakat tradition into a “development institution”, it is important to

ensure that the fund saves Muslims from poverty altogether. The frequently used mechanism for achieving this objective is through income generation programs. Hence, income generation represents the continuous effort by the institution to prove that zakat can empower Muslims and release them permanently from poverty.

The discussion and implementation of income generation in Malaysia evolved hand in hand with the development of the zakat institution. As the first signs of improvement in the institution only appeared in the 1980s, to accelerate in later decades, in general only a few papers on the subject could be found prior to that. Academic studies in the 1980s were still mainly focused on the collection, alongside exhortations to revive the obligation to pay. Some earlier writings, however, should be highlighted, in order to examine the extent to which zakat was discussed in this era.

The idea of using zakat for income generation has actually used to be touched at least in a writing for quite a long time. In 1969, for example, at the Seminar on Islam held in Kuala Lumpur, a local academician has discussed about zakat. In the end of his paper, he has briefly suggested that zakat should be disbursed for poverty eradication so that Muslims would not have to rely solely on government expenditure. He further proposed that zakat should be spent for productive purposes. Such a mechanism could be created through the formation of corporations and business entities for the poor, along with other measures so that the initiatives could give employment opportunities for them.¹⁶³

It is clear that, during this period, the idea of using zakat for income generation remained theoretical in nature and merely a suggestion briefly mentioned in an academic paper. As was widely known, the awareness of Muslims regarding the zakat obligation was, at that time, at a low level. The focus at the time was on encouraging more widespread payment, emphasizing greater adherence to zakat as a religious obligation. Such an aim was also clearly seen through the paper in which, the writer throughout mainly reminded the readers by discussing about foundation of zakat such as definition, its taxable incomes and the eligible recipients. In this

¹⁶³ Abdul Rauf Abdul Majid Badr, "Zakat and Zakat Fitrah, Ketetapan Persidangan Islam Sa-Malaysia" Paper presented in National Conference, Kuala Lumpur, 4 -7 March 1969, 34.

context, he mainly referred to Quran and Hadith and some classical opinions.¹⁶⁴ At this point, we cannot say that the recommendations reflected mass awareness, since the briefly expressed opinion was of only an individual, without further discussion or strong support from others.

The subsequent decades (1980s and 1990s) saw a growing interest in the improvement of the zakat institution, leading to a proliferation of seminars and writings on the subject. To give but a few examples, there was the Seminar Zakat 1980 (Zakat Seminar 1980);¹⁶⁵ Muzakarah Zakat Peringkat Kebangsaan 1984 (National Talk on Zakat 1980);¹⁶⁶ Seminar Zakat dan Cukai Pendapatan 1988 (Seminar on Zakat and Income Tax 1988);¹⁶⁷ International Zakat Conference 1990;¹⁶⁸ Bengkel Agihan dan Penyelarasan Zakat Kuala Lumpur 1993 (Workshop on the Disbursement and Zakat Coordination 1993);¹⁶⁹ and many others.

In these seminars, the disbursement mechanism was among the subjects prominently discussed. As previously mentioned, the 1980s and 1990s were associated with better zakat management and greater promotion of the zakat institution, and the organization of numerous seminars to a certain extent signifies the keen efforts of society and government alike.

In order to improve the disbursement system, the mechanism of income generation for the disbursal of zakat was frequently suggested. Abdullah Ibrahim, for example, in his paper presented in 1984, proposed that the disbursement for poverty must be sufficient to change the recipients' lives. He suggested that those who were

¹⁶⁴ Badr, "Zakat and Zakat Fitrah", 19-33.

¹⁶⁵ The seminar was jointly organized by Majlis Agama Islam Selangor and Majlis Agama Islam Wilayah Persekutuan in Petaling Jaya on 2-6 January 1980.

¹⁶⁶ The talk was organized by Religious Division, Prime Minister's Department in Kuala Lumpur on 2-3 October 1984.

¹⁶⁷ Two seminars on zakat and income tax were organized by Internal Revenue Department respectively in Kuala Lumpur and Penang on May 1986 and March 1988.

¹⁶⁸ The Seminar was jointly organized by Malaysian Government and Islamic Development Bank in Kuala Lumpur on 14-17 May 1990. For further information, please refer Omar Zuhair Hafiz, "Foreword" in *Institutional Framework of Zakah: Dimensions and Implication*, ed. Ahmed El-Ashker and Muhammad Sirajul Haq (Jeddah: IDB, 1995), 9.

¹⁶⁹ The workshop was organized by Islamic Religious Affairs Division, Prime Minister's Department in Islamic Centre on 27-29 October 1993.

able to work must be helped to do so by the provision of capital aid or other necessary support.¹⁷⁰

In similar vein, Mahmud Saedon, a local university professor, suggested in his paper presented in 1993 that zakat could be given to the poor in the form of either a living allowance or capital for those capable of working, in order to equip them with the means of striving productively. This policy would not only enrich them but enable them to generate wealth for the economy and ultimately to contribute to the zakat fund.¹⁷¹

Hailani Muji Tahir, also an academician, recommended that zakat could provide a better way to improve the economic condition of Muslims in the country. In relation to giving the recipients capital, he reminded the gathering that the zakat body should start to focus on disbursement for productive purposes such as income generation. He argued that the zakat body must take into consideration the modern societal need to release people permanently from poverty and not merely continue distributing the fund for consumption as was traditionally practised.¹⁷²

The presenters also to an extent addressed income generation from a local economic perspective. In another paper, Khalid Mohd Zain, suggested that the distribution should take local economic conditions into account. Perhaps based on his understanding of the current situation of Muslims, he proposed that modern equipment should be provided for farmers and fishermen, and that cottage industries should be established to help women.¹⁷³

Indeed, zakat was perceived as potentially complementary to government economic strategy. To this end, it was suggested that the zakat institution be coordinated with other government agencies. Ibrahim in this respect remarked that

¹⁷⁰ Abdullah Bin Ibrahim, "Agihan Zakat Kepada Asnaf Yang Lapan Ditinjau dari Sudut Siyasa Syar'iyah", Paper presented in Muzakarah Zakat Peringkat Kebangsaan, October 2-3, Kuala Lumpur, 1984, 8.

¹⁷¹ Mahmud Saedon Awang Othman, "Isu-Isu Semasa Menegenai Agihan Zakat", Paper presented in Bengkel Agihan dan Penyclarasa Zakat, October 27-29, Kuala Lumpur, 1993, 13.

¹⁷² Hailani Muji Tahir, "Penafsiran Golongan Asnaf Lapan Mengikut Keperluan Semasa di Malaysia", Paper presented in Persidangan Pemantapan Institutsi Zakat, Shah Alam, June 19 1997, 10-11.

¹⁷³ Khalid Mohd Zain, "Ke arah Pembangunan Ekonomi dan Sosial Umat Islam Terengganu Melalui Zakat, Baitulmal dan Wakaf", Paper presented in Seminar Pembangunan Islam Terengganu, 14-16 April, Kuala Terengganu, 1987, 10.

the zakat body should work closely with government bodies such as the welfare department, to avoid redundancy in their services.¹⁷⁴

Overall, in the 1980s and 1990s, discussion of the use of zakat for income generation emerged as part of the process of finding a better way to disburse the fund. This approach was also seen as consistent with the overall objective of using zakat as a poverty eradication mechanism. It is quite apparent from the discussion that zakat was envisioned as a complementary element of the government's strategy for poverty alleviation.

As a response to the demand from society, since the early 1990s a few states have started disbursing the fund in line with this initiative.¹⁷⁵ Among the earlier states were Kuala Lumpur, Selangor and Kedah. In Kuala Lumpur, three types of disbursement for income generation have been gradually introduced since 1995, particularly Bantuan Perniagaan (Business Aid). Unlike the collection function, the disbursement mechanism in Federal Territory has yet to be corporately managed and is still under the Federal Territory Religious Council.

The Minister of Religious Affairs, in announcing the new initiative in 1994, briefly mentioned that the program was introduced in response to frequent applications from poor zakat recipients who expressed a preference for help that would enable them to work and earn a stable income.¹⁷⁶ Although he only referred to the role of recipients, we cannot exclude the possibility that exhortations from the earlier-mentioned seminars also exerted some influence.

Perhaps due to the urban character of the capital city, business aid was the preferred program. It was reported that from 1995 through 1997 the IRCFT disbursed respectively RM253,000, RM383,000 and RM131,000 for Business Aid.¹⁷⁷

Kedah began to officially disburse zakat for income generation in 1997. According to the report, Jabatan Zakat Kedah (Zakat Department of Kedah) helped those who were poor but still potentially productive to acquire the tools and other requisites to enable them to work. The aid, known as Bantuan Jayadiri (Personal

¹⁷⁴ Ibrahim, "Agihan Zakat Kepada Asnaf", 28.

¹⁷⁵ "Majlis Perkenal Skim Baru", *Berita Harian*, 10 June 1994.

¹⁷⁶ "Majlis Perkenal Skim Baru", *Berita Harian*, 10 June 1994.

¹⁷⁷ Bakar, "Baitulmal dan Kemiskinan", 240.

Progress Aid), provided tools for car repair, flour mixers, cooking facilities and sewing machines, among other things. For the years 1997, 1998 and 1999, it was reported that RM8350, RM19,709 and RM12,300 respectively were disbursed for the purpose.¹⁷⁸ The report however, did not detail the amount provided for each beneficiary of the income generation program. As the sum received by each poor person from ordinary direct distribution at that time was between RM300 and RM450, it is likely that a similar amount, or slightly more, was given as Bantuan Jayadiri.¹⁷⁹

In Selangor, the disbursement was introduced in the mid-1990s through a number of programs, namely Bantuan Perniagaan (Business Aid), Bantuan Pertanian (Agricultural Aid) and Bantuan Perikanan (Fishery Aid).¹⁸⁰ It is unfortunate that, perhaps because the disbursement system had not yet been corporatized and hence was still not systematic, the full report on the amount disbursed could not be traced. In 1997, however, the religious council reported that they had allocated a sum for the poor and needy that was directed towards help to business and petty traders, for which purpose in that year RM500, 000 were set aside.¹⁸¹ At a glance, Selangor gave a comparatively large portion for income generation projects. As we shall see later, Selangor has been in the forefront of these initiatives.

In the 2000s, as in the preceding decades, income generation became a prominent and recurring theme in writings and discussions on zakat. In this era, seminars on zakat were most often organized by religious bodies or universities. Among these were the Seminar Pelaksanaan Zakat Pendapatan 2000 (Seminar on Zakat on Personal Income 2000), Seminar Kebangsaan Kaedah Pengagihan Dana Zakat 2000 (National Seminar on Zakat Disbursement Approach 2000), National Muzakarah Pakar Zakat 2002 (National Zakat Experts Discussion 2002), Musyawarah Perdana Ekonomi 2005 (Seminar on Mainstream Economics 2005), and Seminar Kebangsaan Pengurusan Harta Islam 2006 (Seminar on Islamic Wealth Management 2006). In many papers, it was suggested that the distribution of zakat be

¹⁷⁸ Jabatan Zakat Kedah, *Laporan Aktiviti-aktiviti Zakat Negeri Kedah Darul Aman Bagi Tahun 1997-1999*, (Alor Star: Jabatan Zakat Kedah, 1990), 18.

¹⁷⁹ Jabatan Zakat Kedah, *Laporan Aktiviti-aktiviti*, 17.

¹⁸⁰ Kerajaan Negeri Selangor, "Sistem Agihan Zakat Kepada Asnaf Fakir" in *Warta Kerajaan*, August 29, 1994.

¹⁸¹ "Baitul Mal WP, Selangor Bantu Usahawan Miskin", *Berita Harian*, 19 June, 1997.

modernized in accordance with the problems of society. In this context, income generation was commonly referred to as a suitable approach for the disbursement system to adopt in helping the Muslim poor.

A few papers could perhaps be outlined here. At the National Seminar on Zakat Disbursement Approach in 2000, in a paper presented by the Director of the Malaysian Institute of Islamic Understanding, a government agency which actively promoted official Islamization projects, one of the proposed approaches to zakat distribution was through economic programs. The director also argued that the recipients should be provided with essential skills to ensure that their projects could succeed. In this respect, he further called on professionals to help the government and the zakat agency to carry out their agendas.¹⁸²

The discussion of zakat for income generation in the 2000s, although not detailed, and to a great extent still theoretical in nature, has started to include initial efforts by the authors to look at and link their ideas to what was happening on the ground. In a seminar organized in 2002, for example, a few papers touched on disbursement issues. Shukri Salleh and Zainal Abidin in their papers briefly mentioned the practice of fund management in a number of states. Looking at the disbursement practice for the poor, the former felt that officials were assumed to have a clear view of the poverty problem, but that, according to his findings, this might not be the case. As for improving the system, Salleh proposed that the disbursement should focus on the local area from which the fund was drawn. It must be distributed as soon as possible to local needy people, within any initiative including income generation, before any sum was allocated to be sent to central office.¹⁸³ As for the latter writer, based on his brief survey on the practice of the zakat body in Federal Territory, he observed that to a certain extent the poor and needy had been given attention, although in many cases distribution was still not effective. Noting that the distribution primarily went on consumption, he proposed that the fund be given in such a way as to help recipients to generate revenue

¹⁸² Nik Mustapha Nik Hassan, "Semangat Pengagihan Zakat Ke Arah Pembangunan Ekonomi", Paper presented in Seminar Kebangsaan Kaedah Pengagihan Dana Zakat: Satu Perspektif Islam, 8-9 February 2000, Kuala Lumpur, 11-12.

¹⁸³ Muhammad Shukri Salleh, "Lokalisasi Zakat: Satu Cadangan Teoritis" in *Zakat Pensiaryatan Perekonomian dan Perundangan*, ed. Abdul Ghafar Ismail and Hailani Muji Tahir (Bangi: Universiti Kebangsaan Malaysia, 2006), 213.

(*berdikari*) and thus be able to sustain themselves (*kemampuan*).¹⁸⁴ In brief, both writers found that, by looking at the practice of local zakat bodies, they gained some idea of how to achieve better distribution.

At a later seminar in 2006, a paper on the role of zakat in developing entrepreneurship was discussed. Looking at some cases of existing practice, in which zakat bodies had started to provide zakat to help petty traders, he expanded on his theoretical proposal by outlining steps that a zakat body could take towards helping recipients to be more productive and independent through entrepreneurship, a critical skill which Muslims in Malaysia needed more of. In this aspect, the aid should also include other initiatives such as training, business consultation and monitoring.¹⁸⁵

Looking at the pattern of discussion, which shows that income generation through zakat has seldom been neglected by zakat theorists, we can conclude that the program is something that most writers hope will be introduced by all zakat bodies. We can see, moreover, that through time the theoretical suggestions were no longer limited to the distribution of financial aid, but extended to complementary programs such as training and advisory assistance to ensure the success of the projects. The focus was then not merely on disbursing the fund in accordance with Islamic law, but also on doing so by more effective methods.

Besides this, none of the writers omitted to mention, at least briefly, the possible use of zakat for generating income, arguing in that connection that the proposed distribution could finally turn the recipients into payers. Although the practice was not described as an unqualified success, one could understand from the writers' examination of it, together with their constructive suggestions and sympathetic comments, that they saw the potential of Malaysian zakat. Moreover, the association of zakat with modern concepts like entrepreneurship and business development indicated that they acknowledged zakat's economic value.

Due to the larger collected fund yielded by corporatization and improved collection systems, it is now easier to put the programs into effect. In Federal

¹⁸⁴ Zainal Abidin Jaffar, "Pengurusan Agihan Zakat: Pengalaman Baitulmal Wilayah Persekutuan Kuala Lumpur", in *Zakat Pensyariatan Perekonomian dan Perundangan*, ed. Abdul Ghafar Ismail and Hailani Muji Tahir (Bangi: Universiti Kebangsaan Malaysia, 2006), 375.

¹⁸⁵ Hisham Sabri and Zulkifli Hasan, "Zakat: Instrumen Penyumbang Pembentukan Usahawan", Paper presented in Seminar Kebangsaan Pengurusan Harta Dalam Islam, 8-9 Ogos 2006, Kuantan, 12.

Territory, unlike in the 1990s, a substantial amount has been disbursed under these programs. Apart from the business aid introduced earlier, the IRCFT added a few other schemes such as Deposit Teksi (deposit for purchasing taxis) and Deposit Bas Sekolah (deposit for purchasing school buses).¹⁸⁶ The latter two schemes are designed for poor zakat recipients who are interested in becoming taxi drivers or school bus drivers, as those services are currently in great demand, with good potential for generating a stable income. For these programs, IRCFT gave the recipient the initial capital needed to acquire a vehicle. The subsequent monthly payments, however, must be met by the recipients out of their earnings. From 2006 to 2008, the IRCFT disbursed approximately RM1.5 million, RM2.5 million and RM3 million respectively for these three programs combined.¹⁸⁷

Apart from that, the IRCFT has provided eligible recipients with entrepreneurial courses offered occasionally according to demand and applications from recipients, although the IRCFT could not monitor each recipient, but left success in the courses to their own abilities. This restriction was due to limited staff, since only a handful of officers were available to deal specifically with this form of disbursement.

In Kedah, also, the programs have continued. More recent reports from the zakat department have indicated that in 2007 the department managed to give away RM80,190¹⁸⁸ followed by RM155,748 in 2008.¹⁸⁹ After more than two decades, however, there was not much change in the practice of aid, except that the maximum amount was raised to suit changing needs and the higher prices of basic tools. From merely a few hundred in the 1990s, the current disbursement limit has risen to RM5000, with the majority of recipients normally receiving between RM1000 and RM2000.¹⁹⁰

Selangor is the most advanced state in this respect. Since early 2000, the Zakat Board of Selangor (ZBS), the body managing the fund in the state, has been gradually improving the programs for income generation. The body offers a wide

¹⁸⁶ Information given by Unit of Administration and Coordination, Federal Territory Religious Council, Kuala Lumpur.

¹⁸⁷ Majlis Agama Islam Wilayah Persekutuan, *Laporan Tahunan (Annual Report)*, various issues.

¹⁸⁸ Jabatan Zakat Kedah, *Kutipan dan Agihan Zakat 2007* (Alor Star: JZK, n.d).

¹⁸⁹ Jabatan Zakat Kedah, *Bantuan Jaya Diri 2008* (Alor Setar: JZK, n.d), 2.

¹⁹⁰ Jabatan Zakat Kedah, *Bantuan Jaya Diri 2008*.

range of integrated programs, including training, monitoring and support services, for which purposes it recently disbursed more than RM5 million. It also established a special unit to run and monitor productive disbursement. With strong support from the state government and the Muslim populace, the ZBS is currently one of the main institutions actively promoting income generation programs for reducing poverty in Selangor.¹⁹¹ As this research will focus on the practice of Selangor, full deliberation on the subject will be presented in the following chapters.

Apart from the above-mentioned states which have introduced the programs since the 1990s, many states began to offer income generation programs after 2000. Negeri Sembilan, for example, introduced income generation in early 2000. From time to time the state's religious council has selected eligible recipients with the potential and skills to generate their own income. These recipients will be helped on the basis of their skills and special needs. The religious council commonly gives priority to those who have experience in and potential for running small businesses, for which they will be given financial capital and necessary tools. According to the disbursement record, from 2005 through 2008 the religious council of Negeri Sembilan spent in the respective years approximately RM197,000, RM357,000, RM289,000 and RM371,000.¹⁹²

Kelantan and Johor are states which have recently introduced disbursement for income generation, the former in 2006 and the latter in 2008. In Kelantan, recipients eligible for income generation will be given from RM3000 to RM5000 to initiate their economic activities. There are a few such activities which the religious council considers to have particularly strong potential in current economic conditions, namely, automotive and tailoring workshops. Apart from giving financial aid, the council helps those who lack experience to acquire necessary technical skills

¹⁹¹ There are many researches, which refer to the implementation of income generation. For example: Bakar, "Baitul Mal dan Kemiskinan", 228-256.; Nor Ghani Md. Nor, *et al.* "The Contribution of Zakat as an Income Creating Asset in Selangor and Wilayah Persekutuan", *Jurnal Ekonomi Malaysia*, (36) (2002): 69-80; Mohd Abd Wahab Fatoni Mohd Balwi *et.al*, "Pewujudan Usahawan Asnaf: Sorotan di Lembaga Zakat Selangor", in *Keusahawan Islam, Konsep dan Isu-isu Pelaksanaannya*, ed. Nor' Azzah Kamri *et.al* (Kuala Lumpur: Jabatan Syariah dan Pengurusan, 2009), 137-152.

¹⁹² "Laporan Kutipan dan Agihan Zakat 2005-2009". Information provided by Majlis Agama Islam Negeri Sembilan.

by enabling them to enter selected technical institutions. This is to ensure that the poor, especially those who are still young, will not be left unemployed.¹⁹³

Like Kelantan, Johor offers a variety of programs including Jana Asnaf Niaga (Business Aid), Jana Asnaf Chef (Food and Catering Aid), and Jana Asnaf Menjahit (Sewing and Tailoring Aid). Each person receiving zakat under these schemes will also be given a sum ranging from approximately RM3000 up to RM5000. Should the recipients need training, relevant courses can be arranged.¹⁹⁴

Looking at the actual implementation of the programs, it appears that many states have introduced income generation through zakat, demonstrating clear progress in the practical realization of what had often been advocated in theoretical writings. With the programs so widely offered, one can hardly say that income generation has been neglected in discussions of zakat distribution for poverty eradication.

The trend towards greater concern for productive disbursement by zakat institutions has fostered greater interest among academics and researchers in focusing on disbursement. Many writers have shown strong interest in this area, including, among others, Abu Sufian Abu Bakar,¹⁹⁵ Nor Ghani Md Nor *et al*,¹⁹⁶ Mohd Abdul Wahab Fatoni Mohd Balwi *et al*,¹⁹⁷ Hisham Sabri and Zulkifli Hasan,¹⁹⁸ and Wan Sabri Wan Hussin.¹⁹⁹ In their writings, income generation programs through zakat are associated with concepts such as empowerment, independence, or entrepreneurship. In this respect, the distribution of zakat through income generation is perceived as a development program helping to turn the poor into businessmen and entrepreneurs. We will touch on these writings in the next chapter which deals directly with zakat in Selangor.

¹⁹³ "Program Fakir Miskin", http://www.e-maik.my/index.php?option=com_content&view=article&id... (accessed 17 June 2010).

¹⁹⁴ <http://maij.gov.my/utama.htm> (accessed 17 June 2010)

¹⁹⁵ Bakar, "Baitul Mal dan Kemiskinan", 228-256.

¹⁹⁶ Nor *et.al*, "The Contribution of Zakat", 69-80.

¹⁹⁷ Balwi *et.al*, "Pewujudan Ushawanan Asnaf", 137-152.

¹⁹⁸ Sabri and Hasan, "Zakat: Instrumen Penyumbang Pembentukan Usahawan", 215-230.

¹⁹⁹ Wan Sabri Wan Hussin, "LZS dalam Membangun dan Mengembangkan Usahawan Asnaf Selangor- Satu Pandangan", Paper presented in Sumbangsaan Program Pembangunan Ekonomi Asnaf, 10 November 2009, Shah Alam.

What is particularly interesting in its implications is that the state given the greatest attention is Selangor, which the writers normally describe as the most comprehensive or advanced in regard to this initiative. Hussin in his paper clearly stated that Selangor is the leading state (*juara*) in its approach to income generation programs. Throughout his paper, he justified his preference in terms of the amounts disbursed and number of programs introduced by Selangor's zakat body.²⁰⁰ Another writer, Wahab Fatoni, also mentioned that Selangor offers the most comprehensive programs for generating income. In his discussion, focusing on efforts to help the poor to become involved in business, he surveyed many income generation programs provided by the Selangor zakat body. He eventually asserted that the body has made the strongest effort to improve the economic conditions of the poor.²⁰¹

Indeed, based on the discussion, we can see that Selangor is the foremost state in providing zakat for income generation. There is no writing, however, which specifically asks why this situation arose. Since the present thesis associates income generation with Islamization, we believe that the latter phenomenon has to a certain extent promoted the emergence of the former.

5.6 Conclusion

The development of the zakat institution in Malaysia cannot be dissociated from the Islamization phenomenon in the country. Islamization in Malaysia has been associated with the dynamic of the national socio-economic scenario. The racial composition of the country, inherited from the pre-independence era, resulted in an economic imbalance between races whereby native Malays were relatively poor compared to other, non-native races. This imbalance led to distrust between races, culminating in a tragic racial riot which broke out in 1969. As a reaction to the riot, the government introduced economic policies favouring the Muslim Malay majority in the population, in the belief that social stability would only be achieved when the majority was not neglected.

²⁰⁰ Hussin, "LZS dalam Membangun dan Mengembangkan Usahawan" 1.

²⁰¹ Balwi *et.al*, "Pewujudan Usahawanan Asnaf", 141-151.

The implementation of the new economic policy in the 1970s gradually gave Malays access to higher education and urbanization, leading to a shift in their outlook. Educated Muslims then argued that the government should not merely strengthen Malays economically but must also be concerned with their religion. They established movements to revive religious practice and to challenge the government politically. The movements also to an extent successfully attracted urban Muslims who were exposed to their appeals and eventually displayed greater religious awareness. To meet the challenge, the government initiated Islamization programs through which Islamic institutions were established and strengthened. The government, however, had its own concept of Islamization, within which the intention was not to turn the country into an Islamic one but instead to improve the majority Malay Muslims economically, an approach which seemed in line with earlier national policy.

As far as zakat in Malaysia is concerned, the institution had been under the control of the *sultan* (state ruler). State religious councils had been collecting and disbursing zakat funds in their respective localities since the early twentieth century. But the institution did not function well, the collected fund being minuscule and the payment still dependent on personal preference, almost as though there were no official institution. There were anomalies in the practice of zakat in this era, such as taxing the rice farmers despite their generally poor circumstances and giving little or no attention to distribution of the collected fund to the poor and needy.

The Islamization process in the country slowly changed the position of zakat. At the end of the 1970s and in the 1980s, writings and studies on zakat practice began to proliferate, questioning traditional practice and suggesting better methods. In a positive reaction, government also gradually began to show its concern by organizing discussions and studies of how to improve the system of zakat management. Eventually, in the 1990s, the government introduced “corporatization”, a new method which later successfully increased the collection, in turn creating the opportunity to develop a better distribution system. It was proposed that zakat act as a development agency with an emphasis on poverty eradication. Ultimately, the Islamization phenomenon had transformed zakat from a solely religious tradition to a development institution.

Looking at the pattern emerging from this discussion of zakat, it is evident that income generation has slowly become a disbursement system given priority by the religious councils. Income generation programs can prove that zakat is workable and that to a certain extent it can complement the government policy of empowering Malays. From the 1990s, many states have offered such programs, featured as a nationwide initiative. Selangor was among the first and appeared to be the most active and advanced state in offering the programs. Hence, the state merits more attention in later chapters.

Throughout the chapter, it has appeared that the Islamization process affecting the development of zakat in Malaysia has been initiated from the top (government) as well as from the bottom (society). Islamization of society, expressing the desire to revive religious awareness, led to the government becoming more accommodating to Islam, despite its original secular character. Through these processes, the zakat institution was eventually directed towards furthering economic development.

CHAPTER 6

ZAKAT ADMINISTRATION AND ISLAMIZATION

IN SELANGOR

6.1 Introduction

As previously discussed, since the 1990s, the corporatization mechanism has given rise to further development in zakat management. Additionally, on the basis of what was outlined in the economic plans, it seems that zakat has been converging with the country's economic policy. The federal government has, over time, provided an environment conducive to the improvement of the zakat institution. All these events illustrate the government's Islamization program.

The state governments responded positively by replicating the model, which subsequently produced higher collections in their territories. In this respect, Selangor is the state most meriting examination. Its collection has been the highest; its corporatization has extended to distribution and has established sound administration. The state has also been the most advanced in offering the income generation program.

This chapter, hence, aims to discuss the overall practice and administration of zakat in Selangor and the way Islamization in the state has influenced the institution. The chapter will elucidate the underlying situation in the state before further deliberating, in the next chapter, on the implementation of income generation. Through the discussion, the fourth objective, which is to explore the implementation of income generation, may be partly achieved.

The chapter is divided into three sections. The first ventures into the general socio-political and economic background of the state. The section will show that, in many aspects, the social politics of Selangor resemble those of Malaysia. As a state in a federal country, Selangor has also been following the financial and poverty eradication policies of the federal government. Here the state has assumed the supporting role of helping the government to implement its policy. Such an arrangement, however, does not prevent the state from introducing its supplementary programs. Thus, it has embarked on many income generation programs. With limited

money for development, the state was receptive to any possible sources of finance, including zakat.

The next section describes the Islamic religious council, the body which has played an important role in the official management of zakat and in general Islamic administration. The council is responsible for advising the ruler on Islamic matters in the state. Zakat is one of its principal financial resources, as the body is not funded by the state. Although basically it is accountable to the ruler, the members of the council, many of whom were government officials, tend to steer the body in a direction consistent with government aims. Besides the religious council, the *Mufti* is important in zakat administration. In this context, any change or new legal rulings pertaining to zakat must be endorsed by the *Mufti*.

The final section explores the development of zakat from its inception in the 1950s to the present time. The institution was initially a merely religious one having no potential for development. The Islamization phenomenon gradually swelled the collected fund, eventually leading to the current administration's focus on poverty eradication, supported by more systematic and proper disbursement. Thus, the state government appeared to uphold the institution by using the fund for poverty eradication. Indeed, its policy is similar to the federal government's initial proposal in the Malaysian plan, as discussed in the previous chapter.

Altogether, the chapter shows the gradual development of zakat in the state. The implementation of income generation as one of the state's poverty eradication mechanisms will be discussed in greater detail in the coming chapter.

6.2 The Background of Zakat Administration in Selangor

The introduction of a better way of zakat distribution in Selangor is related to the broader development perspective, aimed at empowering Malays, as well as to the Islamization phenomenon. The development and improvement of zakat is also associated with socio-economic change in Selangor. Hence, perusal of the basic socio-political and economic background, in which we can see the typical pattern of racial composition, is pertinent before venturing further.

Economically, the state government relies on the federal government, which holds much of the financial power in the country. Thus, the state government contributes supportive action by implementing economic policy outlined at the federal level. The result is that the state government has only limited financial resources, so that zakat as a source of funds could complement state strategies for poverty eradication.

Another factor is that zakat administration has been under state rule, managed by the religious council. As we shall see, the members of the council are also government officials, which shows that government policies to a certain extent influence it. As a consequence, an opportunity exists for the state government, in collaboration with the religious council, to use the zakat fund for development in the state.

Another aspect we need to consider is that, the zakat being a religious fund, any changes in its practice must be in accordance with Islamic law, which is ultimately decided by the state *Mufti*. Hence, this feature of zakat administration is a further subject of discussion in the present section.

The section is divided into two parts, the first focusing on the state background and the second on the background of the zakat bureaucracy and its legal aspect. From both sections we should obtain a picture of the state's limited capability in initiating development projects. However, its connection with the religious council could be a potential source of financial support through zakat, provided that any use of the fund is in line with Islamic law.

6.2.1 Background of the state

Selangor is a state on the west coast of Peninsular Malaysia and geographically is bordered by the state of Perak to the north, Pahang to the east, Negeri Sembilan to the south and the Strait of Malacca to the west. With an area of 7956 sq km, it surrounds the federal territory of Kuala Lumpur, the capital city of

Malaysia of which was once under Selangor's sovereignty.¹ Its current capital city is a rather newly emerged, Shah Alam, 25 kilometers from Kuala Lumpur, which it replaced as state capital in 1978, after Kuala Lumpur had been granted federal territory status in 1974 as Malaysia's capital city.²

As of 2009, Selangor had a multiracial population of approximately five million, comprising around 2.7 million people of Malay ethnicity as well as respectively 1.38 million and 0.66 million Chinese and Indians.³ The state contains nine districts, four of which are categorically urban and the rest are still considered rural. A majority, approximately 88%, of the population reside in urban areas.⁴ Economically, Selangor is among the most developed states in Malaysia, relying on multiple industries including manufacturing, business and sales, and government and private services.⁵ Indeed, with the state's location at the centre of West Malaysia next to Federal Territory, its urbanization and economic development are undeniable results of federal influence in terms of ready access and superior infrastructure.

The state's ethnic composition resembles the overall national demographic pattern discussed in the previous chapter. Apart from that, it is interesting to note that the 1969 riot took place in Kuala Lumpur which was still under Selangor's rule. In addition, the former chief minister was among those directly involved in the riot.⁶ Hence, it is unsurprising that the state government has strongly supported the federal initiative for empowering Malays so as to put that race on an equal footing with non-native races in the state.

The federal system in Malaysia renders the state government in many respects reliant on the federal government. Major sources of finance, for example,

¹ The Selangor State Economic Planning Unit (UPEN), *State and Local Authority (LA) Demographic Data for Selangor Darul Ehsan 2006* (Shah Alam: UPEN, 2006), 2.

² <http://www.selangor.gov.my/main.php?Content=vertsectiondetails&VsItemID=3&VertSectionID=375&CurLocation=44&Page=1> (22, November 2010)

³ The State of Selangor, *Governing Selangor: Policies, Programmes and Facts* (Shah Alam: The State of Selangor, 2008), 9; UPEN, *State and Local Authority*, 63.

⁴ Selangor defined that urban districts are the districts with more than 51 percent of the population reside in urban areas. Refer Patmawati Ibrahim, "Economic Role of Zakat in Reducing Income Equality and Poverty in Selangor", Phd Thesis, Universiti Putra Malaysia, 2006, 6.1; The State of Selangor, *Governing Selangor*, 9.

⁵ In 2008 for example, the state economy mainly generated by manufacturing sector(24%), business and retailing (22.7%), government services (14.2%), financial services (11.6%) and agricultural and fisheries (3%). The State of Selangor, *Governing Selangor*, 9.

⁶ Tunku Abdul Rahman, *13 Mei Sebelum dan Selepas* (Kuala Lumpur: Utusan Publication, 2007), 83.

including the collection of individual and corporate income taxes, are under federal power. State governments are only eligible for rather minor financial roles, such as collecting land and local council taxes within their respective territories. Such revenue sources are certainly insufficient to cover all their expenses. Thus, in running its bureaucracy, the state government has continued to rely on the annual federal grant and also on loans from the federal government. Selangor is one example, having received, in 2010, federal support amounting to more than RM500 million for its administrative and local development expenditure. The state is also carrying more than RM1 billion in loans from the federal government for a number of its long-term development projects.⁷

Since the state governments have less income than the federal government, initiatives for the economic improvement of society have been mainly implemented by federal bodies. For instance, to raise the conditions of rice planters in the country, the government through the Ministry of Agriculture has been paying incentive money under the Rice Price Subsidy Scheme (Skim Subsidi Harga Padi) whereby the ministry paid them an extra RM248 for every ton of produced husked rice. Between 2004 and 2006, the ministry spent more than RM1.37 billion on this scheme across the country. In Selangor, more than 10,000 rice planters benefited from the program, which cost approximately RM90 million.⁸

Apart from that, the Social Welfare Department of Malaysia has continuously provided programs and support for the elderly, poor children and the disabled. In 2005 and 2006, the department spent more than RM30 million, obviously from the federal financial budget, on Selangor.⁹ It is clear that the federal government, having

⁷ Jabatan Audit Negara Malaysia, *Laporan Audit Negara 2010* (Putrajaya: Jabatan Audit Negara, 2011), 29, 42.

⁸ For the three years, Selangor has produced 90.5 million metric tonnes of rice. Jabatan Audit Negara Malaysia, *Laporan Audit Negara 2006* (Putrajaya: Jabatan Audit Negara, 2007), 172, 166.

⁹ According to the Social Welfare Department's Report, the spending in Selangor for its programs in 2005 and 2006 are as follows:

Programs	2005 (RM in Millions)	2006 (RM in Millions)
Children Aid	3.9	3.2
Elderly Aid	2.9	4.8
General Aid	5.3	4.0
Natural Disaster Aid	0.3	0.17
Aid for artificial limb	0.3	0.08
Allowance for working disables	2.9	3.5

greater resources, has initiated many projects and made substantial provision for them.

In fact, poverty is relative to local conditions. Although the federal government could make more substantial provision for the development of the state, the state government has detailed insight into the situation in its territory. That is why the federal government has been deploying state officials in a monitoring role to ensure that projects under its auspices are running well. The progress and achievement of the projects are overseen by district officers who report to the Chairman of the State Development Committee, this person being also the Chief Minister of the individual state.¹⁰ The role of the state government thus appears to be merely that of a monitoring agent, not directly involved in the implementation of programs; which suggests that its functions are of secondary importance.

In 2009, the federal government estimated that poverty in Selangor was around 0.7 percent, which equals approximately 35,000 poor households. Looking back to the poverty situation in the 1970s, with 30% in poverty, such an achievement might be considered impressive.¹¹

However, due to rapid urbanization, leading to the escalation of living costs, such figures do not necessarily give a true picture of overall poverty in the state. The Selangor state government, therefore, besides being active in promoting federal government programs, also offers complementary initiatives through its own departments and local authorities.

The Selangor government, for example, introduced a program called Kerajaan Perihatin (Concerned Government) in the mid-1990s to provide new accommodation and repair existing houses for the poor. Through the program, each recipient will receive either a basic house in a specified relocation area, or a specified

Refer to http://www.jkm.gov.my/jkm/index.php?option=com_jdownloads&Itemid=314&task=Viewcategory&catid=45&lang=ms (accessed February 11, 2011).

¹⁰ Prime Minister's Department, "Malaysia: 30 Years of Poverty Reduction", 11-13; 41-42; Government of Selangor, *Blue Print Membasmi Kemiskinan Di Negeri Selangor* (Shah Alam:UPEN, 2006), 2-4.

¹¹ Government of Malaysia, *Tenth Malaysian Plan 2011-2015* (Putrajaya: Government Printers, 2011), 417; <http://www.epu.gov.my/html/themes/epu/html/RMKE10/img/pdf/bm/lampiran.pdf> (accessed 12 July, 2012).

amount up to RM7000 to repair the currently occupied home.¹²

Apart from providing accommodation, the state government has introduced income generation programs since the early 2000s. Through Program Dana Nelayan (Fisheries Fund Program) for example, individual fishermen are helped to acquire new fishing equipment, normally with a sum of about RM5000. The government also improved the basic requirements of fishing activity in the state, such as jetties or docks where the fishermen could disembark and unload their goods.¹³

State government also, introduced a program called Entrepreneurship Fund which focused on helping through business aid. The selected individuals are helped to become actively involved in small businesses, through being provided with monetary capital aid and other necessary facilities. A report indicated that until mid of 2000s RM 4.4 million has been disbursed in the form of grant and loan.¹⁴

On the basis of what the state government has offered, we can suggest that it prefers to rectify economic imbalance in society by the relatively long-term approach of empowering the poor through income generation programs. As the government has a limited budget, the provision for each individual is normally restricted to a maximum of RM5000. The government also needs support from other agencies; for example, the “Kerajaan Perihatin” project involves collaboration between the government and other agencies.

In conclusion, this brief discussion has shown that Selangor is a multiracial state, which suggests that it is not exceptional in regard to facing the racial challenge. As a state in a federal country, the distribution of power between state and federal regimes places Selangor’s economic management in federal hands. The state must cooperate with the federal administration in implementing national economic policy. Since the financial budget mainly comes from the federal government, plans for development and poverty eradication have mainly originated with it. The state, meanwhile, plays a secondary role by closely monitoring any federal projects to

¹² Pusat Zakat Selangor, “Laporan Seminar Pembasmian Kemiskinan Bandar dan Luar Bandar”, Shah Alam, 13 May 2004, 16; Unit Perancang Ekonomi Negeri Selangor (UPEN), *Rancangan Malaysia Ke-9 Selangor Darul Ehsan 2006-2010* (Shah Alam: UPEN, 2007), 48.

¹³ UPEN, *Rancangan Malaysia Ke-9*, 49; “Pelbagai Skim Disedia Tingkat Taraf Hidup”, *Berita Minggu*, December 9, 2007; “Dana Nelayan Diperluas Seluruh Negeri”, *Berita Harian*, July 30, 2004.

¹⁴ Azizan Mohd Sidin, “Pembasmian Kemiskinan di Selangor Dalam Tempoh RM ke 8” in *Pembasmian Kemiskinan Bandar dan Luar Bandar* (Petaling Jaya: INMIND, 2005), 170.

ensure that they are correctly implemented.

However, the nationwide basis on which poverty eradication is undertaken cannot always accurately depict the pattern of poverty. Therefore, the state government has initiated several projects, mostly in the form of income generation. These are considered complementary programs, dependent on the financial capability of the state government. Indeed, finances being rather limited, the state has had to cooperate with other agencies and find other financial resources. This necessity eventually led to the proactive initiative of adopting zakat as an official instrument with which to pursue the state's objectives, as we shall see in the following sections.

6.2.2 Bureaucratic and legal aspect of zakat in Selangor

Regarding the state's management, the *sultan* (ruler) is the highest authority, with administration mainly carried out by the Chief Minister. The Chief Minister is head of the state executive, assisted by the State Executive Council whose members are elected in a state poll held once every five years.¹⁵

Since the ruler is the head of Islam in the state, the development of Islamic institutions, including zakat, has been promoted on his initiative. On the one hand, this could be seen as a personal effort to control and maintain Muslims' understanding of their own religion. On the other, it could be seen as a reactive move towards building a larger and stronger organization following a decline in his power.¹⁶ In this context, a brief history of the Selangor sultanate perhaps merits elaboration.

The power of the currently reigning ruler can be traced back to the eighteenth century, when Raja Lumu, the first ruler, from a branch of the Bugis family established at Riau, south of Singapore, started to rule Selangor in 1742.¹⁷ In the nineteenth century, the power struggle between royal families claiming lucrative areas of tin mining (the then booming industry) threatened the political stability of

¹⁵ Muhammad Agus Yusoff, *Malaysian Federalism, Conflict or Consensus* (Bangi: Penerbit UKM, 2006), 69.

¹⁶ Roff, "Patterns of Islamization", 212.

¹⁷ J.M Gullick, *Indigenous Political Systems of Western Malaya* (London: The Athlone Press, 1958), 14; R.J Wilkinson, *A History of the Peninsular Malays with Chapters on Perak and Selangor* (Singapore: Kelly and Walsh Limited, 1923), 141.

the state.¹⁸ To protect their economic interests in the state, the British took charge of restoring peace in the state and consequently became directly involved in local politics. By early 1875, British officials succeeded in persuading the *sultan* to accept a Resident and an Assistant Resident.¹⁹

In 1948, as a step towards facilitating the administration of Malay states, the British introduced the Federation of Malaya, a type of governance combining eleven Malay states under a single federal administration headed by a British High Commissioner. This new arrangement, however, did not make much difference to the division of power, whereby the federal government controlled a wide range of national activities such as finance, citizenship, defence and foreign affairs. State rulers, assisted by the state Chief Minister, held power mainly related to religious affairs and other matters pertaining to land and local customs within their respective territories.²⁰ This type of federal administration has been inherited and maintained up to the present time by independent Malaysia.

What we can observe is that, as a result of the process of political division, the appointment of residents, and later the formation of a federated type of government, the power of *sultans* was reduced considerably. The British through their residents took over almost all aspects of state administration such as tax collection and other functions which had previously been under the rulers' auspices. Eventually, the ruler was merely looking after religious affairs and Malay customs. This is why religion became the object of the rulers' greatest concern, with its administration being strengthened over time.

In Selangor, Sultan Alauddin Sulaiman Shah (1938-1942) and Sultan Hishamuddin Alam Shah (1945-1960) were among rulers who actively enhanced Islamic administration in the state during their reigns. Sultan Alauddin in his time, for example, introduced the teaching of the Quran in Malay schools and established two Arabic schools.²¹ In 1931, he also appointed a religious advisor to consult on

¹⁸ Khalid, "Islamic Law and Land", 47

¹⁹ Khalid, "Islamic Law and Land", 50.

²⁰ "The Constitution of Malaysia", Ninth Schedule; Yusoff, *Malaysian Federalism*, 70-71.

²¹ Ahmad Rafei Abdullah, "Struktur, Organisasi dan Fungsi Jabatan Hal Ehwal Ugama Islam dan Majlis Ugama Islam Negeri Selangor", B.A Dissertation, University of Malaya, 1970/1971, 23.

religious questions and delivered religious speeches throughout the state.²²

Another important initiative was the inception of the religious department in 1945 in Selangor by Sultan Hishamuddin. He was personally worried about the possible threat of communism following the Japanese invasion of Malay states (1941-1945), which he feared might cause the people to be misled by an ideology that decidedly contradicted the teachings of Islam.²³ He argued for a department to deal with Islamic affairs in the state. In order to finance the new department he used the royal allowance to pay its staff and allocated his own office to it.²⁴ This effort was well received by the British as such a project was obviously in line with the colonial government's interest in turning the people's hearts against the communists.²⁵

The call from the ruler has paved the way for the establishment of the Islamic Religion Department of Selangor (Jabatan Agama Islam Selangor or IRDS) in 1948 as one of the official mechanisms of the state government.²⁶ A few years later, in 1952, the Majlis Agama Islam Selangor (Islamic Religious Council of Selangor or IRCS) was established. Its purpose was mainly to advise the ruler in determining the direction of religious administration in the state. Hence, in the relationship between the IRCS and IRDS, the former is chiefly associated with policy-making while the latter is charged with the day-to-day operation and implementation of policy.²⁷ The IRCS, in this respect, could be considered the cementing factor between the ruler and Islamic concerns in the state.²⁸

The role and nature of the IRCS were clearly defined in the Administration of Muslim Law Enactment 1952, a gazetted legal document describing all aspects of the

²² Abdullah, "Struktur, Organisasi dan Fungsi Jabatan", 24.

²³ "Sejarah Latar Belakang Penubuhan JAIS", http://www.jais.gov.my/index.php?option=com_content&task=view&id=25&Itemid=52, (accessed November 23, 2010); Khalid, "Islamic Law and Land", 128; Abdullah, "Struktur, Organisasi dan Fungsi Jabatan", 26-27.

²⁴ Abdullah, "Struktur, Organisasi dan Fungsi Jabatan", 27.

²⁵ Khalid, "Islamic Law and Land", 128; For more information about the then government strategies to counter the communist insurgency in Malaya, please refer to: Riley Sunderland, *Winning the Hearts and Mind of the People: Malaya: 1948-1960* (Santa Monica: The Rand Corporation, 1964).

²⁶ "Sejarah Latar Belakang Penubuhan JAIS", http://www.jais.gov.my/index.php?option=com_content&task=view&id=25&Itemid=52, (accessed November 23, 2010).

²⁷ Ibrahim, *Islamic Law in Malaya*, 151.

²⁸ Khalid, "Islamic Law and Land", 129.

council such as its constitution, membership and powers.²⁹ At its start, the IRCS consisted of at least eight members selected by the state ruler, and from time to time was required to call a meeting to discuss religious matters under its control.³⁰

Financially, it was understood that the IRCS, as a corporate advisory body, must have its own resources without relying on government assistance. In this context, the enactment, within its financial section, stated that the IRCS could manage the Muslim fund called *Baitulmal*.

A Fund to be known as Baitulmal is hereby established. Such Fund shall consist of all money and property, movable or immovable, which by Muslim law or under the provisions of this Enactment or rules made here under accrues or is contributed by any person to the Fund.³¹

Through the *Baitulmal*, the IRCS has been able to generate financial resources with which to sustain the body. From the early days of its formation until the end of the 1960s, for instance, the overall assets of the division amounted to approximately RM 500,000, mainly from donations and unclaimable inheritances of Muslims in the state.³²

Apart from *Baitulmal*, the role of zakat administration in the state of Selangor was also conferred on the IRCS. It thus became the only body empowered to collect the zakat and *al- fiṭr* from every Muslim in the state on behalf of His Royal Highness. The relevant provision of the enactment reads:

The Majlis shall have the power, and shall be under the duty, to collect on behalf of His Highness the Sultan, and to dispose of as the Majlis with the approval of His Highness may, subject to the provisions of this Enactment, direct, all zakat and al-fitrah payable in the State in accordance with Muslim law.³³

Since its formation, the IRCS has collected and distributed the money in a number of ways. Initially, the council itself took the initiative by setting up a unit for the purpose. In the mid-1990s the IRCS introduced a corporate body to manage the

²⁹ Administration of Muslim Law Enactment (State of Selangor) 1952; Administration of the Religion of Islam Enactment (State of Selangor) 2003, Section 5.

³⁰ Administration of Muslim Law Enactment (State of Selangor) 1952.

³¹ Administration of Muslim Law Enactment (State of Selangor) 1952, Section 94.

³² Abdullah, "Struktur, Organisasi dan Fungsi Jabatan", 106-109.

³³ Administration of the Religion of Islam Enactment (State of Selangor) 2003, Section 86.

fund on its behalf. This new development in zakat administration in the state will be discussed in a later section.

From what has been discussed so far, we can see that colonialism diminished the power of state rulers, who then directed their focus towards their particular remits, especially religion. To this end, the rulers in Selangor have established religious administrative institutions, namely the IRDS and IRCS. The IRDS is a state instrument financed by government mainly as an implementing body for government policy pertaining to religious affairs. The IRCS is an advisory body reporting directly to the ruler and responsible for zakat administration.

At a glance, it would appear that the IRCS is purely answerable to the ruler. If that were so, the state government would not have the opportunity to absorb the body and take advantage of its financial resources for the development of the state. This, however, is not the case, because, as we look at the members of the IRCS, we can see that the body has been regularly composed of government officials. Since the inception of the IRDS, its director, a government official, has been a member of the body. The IRDS director was made president (from 1952 to 1989), and thereafter appointed secretary, of the IRCS.³⁴ In addition, other high-ranking state personnel such as state secretary, legal advisor, and state financial officer, are among the ex-officio designated members. Indeed, such appointments show that the IRCS is closely linked with the state government, an arrangement which enables the two parties to move in the same direction.

It is not an exaggeration, therefore, to suggest that the IRCS has to a certain extent been influenced by government development policy, within which the IRCS could serve as a potential source of government finance. In the 1970s, the IRCS for example, invested its *Baitulmal* money in shares offered by the state and federal government in enterprises such as the Amanah Saham Nasional (Mutual Fund specially design for native races) and the Tabung Haji (Pilgrimage Fund). It was reported in 1974 that the total IRCS investment amounted to almost RM500,000.³⁵ Besides that, the IRCS has also spent zakat fund on development programs which

³⁴ Administration of Muslim Law Enactment (State of Selangor) 1952, Section 13; Enakmen Pentadbiran Perundangan Islam 1989, Seksyen 11.

³⁵ Khalid, "Islamic Law and Land", 279.

partially supplemented that of the state government, as we shall see in later section. As the previous section indicated, the state government needs more financial resources for development, providing an opportunity for the IRCS to offer its assistance.

Based on the enactment's provisions concerning zakat, we can say that the IRCS has the prerogative of ensuring better management in the collection and distribution of the fund. The scope of the IRCS pertaining to zakat encompasses, among other functions, prescribing from time to time the amount of zakat and *al-fitr* to be paid by all Muslims, determining the method of fund collection and disbursement as well as appointing collection agents.³⁶

What is interesting to note, however, is that the above provisions also include the clear condition that the fund's management must be in accordance with "Muslim law". "Muslim law" in this case actually means "*Hukum Syarak*" or Islamic law. In other parts of the enactment, it is indicated that any question regarding Islamic law must be referred to the *Mufti* (known as *Muftī* in Arabic which is literally known as the expounder of Islamic law).³⁷ In this case, the *Mufti* is not merely a member of the IRCS but also an important individual in his capacity as the ruler's advisor on Islamic jurisdiction.

It is worth discussing the role of the *Mufti* and his legal expedients as issues directly related to the administration of zakat. Any improvement or changes in zakat collection or disbursement must be referred to the *Mufti* for clarification. Within this thesis, such processes of legal deliberation will enter into our discussion on the implementation of income generation in a later chapter.

As for procedural guidelines on issuing a *fatwa*, the enactment briefly stated the extent to which the *Mufti* can implement his opinion of a particular problem. Initially, the *Mufti*, assisted by a special *fatwa* committee, must follow the views of the Shāfi'ī school of law. If the view of this particular school might lead to an outcome inimical to the public interest, then the other three established schools, namely Ḥanafī, Mālikī and Hanbalī can be consulted, or alternatively he can employ

³⁶ Administration of Muslim Law Enactment (State of Selangor) 1952, Section 107, 108.

³⁷ Administration of Muslim Law Enactment (State of Selangor) 1952, Section 38; Administration of the Religion of Islam Enactment (State of Selangor) 2003, Seksyen 6, 45.

ijtihad without being strictly bound by any established Sunnite school.³⁸ The decision-making process, as outlined in the enactment, suggests that, although the *Mufti* may still rely strongly on a particular school, especially Shāfiʿī, as a dominant school, a tendency to use *ijtihad* is not ruled out.

From the discussion in this section, it could be inferred that the establishment of the IRCS represents an endeavour to help the state's ruler play his role effectively as a paramount power in Islam. With its membership drawn from government officials, the direction of the body is indirectly influenced by government policy. What is pertinent here is that the nature of zakat as a financial resource under the IRCS is also a potential source of funds for development. Another important consideration in zakat management is the legal aspect. Where such questions arise, the *Mufti* has the power to advise the ruler as to the law.

6.3 Development of the Zakat Institution in Selangor

This section will discuss about the development of zakat institution in Selangor from its inception through the era of corporatization. It comprises three parts. The first part will elaborate the development of the institution in 1950s and 1960s. The second parts will elaborate what happened to the institution during 1970s and 1980s, where the Islamization phenomenon started to usher. The final part will focus on its development after corporatization. In general, it will be made clear that zakat has been transformed from merely a religious tradition to a potential fund for poverty eradication in Selangor.

1. 1953-1969- The formation period

The IRCS began collecting and disbursing zakat from Muslims in the state in 1953. From the commencement of the operation, the responsibility lay with the Secretary of the IRCS, aided by his clerical staff at the centre. At the district level, administration was mainly in the hands of religious officers such as the religious teachers' supervisors (*nazir guru agama*) and the *kadhi* (district judge), who

³⁸ Administration of the Religion of Islam Enactment (State of Selangor) 2003, Section 48; Mazni Abdul Wahab, "Pentadbiran Fatwa Di Negeri Selangor: Kajian Terhadap Enakmen Pentadbiran Perundangan Islam Selangor 1989", Master Dissertation, University of Malaya, 2001, 77, 81; Hasnan Kasan, *Institusi Fatwa di Malaysia* (Bangi: Penerbit Universiti Kebangsaan Malaysia, 2008), 77.

monitored the activities of local agents. All these officers were under the IRDS.³⁹ The actual collection of the fund was mainly carried out by the appointed local agents.⁴⁰ Between the 1950s and the 1960s there were approximately 1000 local agents throughout the state.⁴¹ It appeared that the zakat operation relied primarily on these agents, helped considerably by the government, inasmuch as the district officers were with the IRDS, a government department. Due to limited financial income, as it was still newly formed, the IRCS did not have its own officers for dealing specifically with the fund.

The collection and disbursement system during this phase was also rather unsystematic. In the early years of its formation, only two types of zakat, namely *al-fitr* and zakat on cereal (rice), were subject to mandatory payment to the IRCS. Up to 1954, payment from other sources of wealth was still a matter of personal prerogative.⁴² In 1955, perhaps in order to increase zakat collection, payment from types of wealth other than *al-fitr* and cereals also had to be made to the IRCS. Unlike zakat on cereals, forms of wealth such as business and personal savings, however could only be submitted to the zakat offices, as local agents had no power over them. As a result, this modification did not bring any significant change.⁴³ In the end, the collection was not encouraging, the fund gathered from business up to the end of the 1960s amounting to only RM16,790.⁴⁴

In dispersing the fund, the agents did not have to surrender all the collection to the zakat unit but could disburse some of it locally for the benefit of the poor and the mosques. From the beginning of the zakat operation until the end of the 1960s, for example, it was reported that the agents had to surrender only half the collection of *al-fitr* and three-eighths of the zakat on cereal. In the case of *al-fitr*, an eighth of the total collection was first subtracted for the agent's fee. Two-eighths were then given to the poor and needy, and another eighth to the local mosques under the heading of *fī sabīl allāh* (in the path of Allah). In the case of cereal, only three-eighths had to be remitted to the IRCS. The balance went to the agents, the local poor

³⁹ Abdullah, "Struktur, Organisasi dan Fungsi Jabatan", 98.

⁴⁰ Khalid, "Islamic Law and Land", 270.

⁴¹ Abdullah, "Struktur, Organisasi dan Fungsi Jabatan", 99.

⁴² The Administration of Muslim Law (Fitrah and Zakat) Rules 1953, No 2, No 9.

⁴³ Administration of Muslim Law (Fitrah and Zakat) (Amendment) Rules 1955, No. 14, No. 15.

⁴⁴ Abdullah, "Struktur, Organisasi dan Fungsi Jabatan", 101.

and needy (two-eighth each), and another three-eighth for the mosques and zakat agents and supervisors.⁴⁵

Leaving the disbursement to the agent could be seen as a way of ensuring that local people, especially the poor, would benefit from the collected fund. However, excessive power in the agents' hands exposed the fund to the possibility of abuse. Consequently, in the 1950s, there were cases in the state of the agent failing to remit the collected fund to the IRCS. In 1955, for instance, a case was reported in an agricultural area of Selangor in which, from a total collection of RM334,980 of zakat on rice that was supposed to be submitted to the office, only RM167,490 was actually handed in on time. The problem was still occurring in the 1960s. In 1961, there was another case in which an agent failed to submit in full the amount that he received from the payers.⁴⁶

Perhaps due to mismanagement of the fund by the agent, leading to a lack of trust in IRCS collection, farmers were not persuaded to surrender their payment. Eventually, the collection of zakat on cereal declined from RM21,000 in 1954 to under RM9000 in 1959. It declined further in the 1960s, to approximately RM2000 in 1969. Until the end of the decade, the IRCS appeared to be struggling with the administration of the fund. The collection relied solely on *al-fitr*, which in 1969 contributed RM273,000 of the total RM292,000 collected fund.⁴⁷

For a view of the overall situation in the 1950s and 1960s, it is worth mentioning an academic exercise submitted in 1971 by a local writer on the subject of the religious administration in Selangor. In his discussion of religious institutions, particularly the IRDS and IRCS, he devoted a small section to the zakat operation in Selangor between 1953 and 1969.⁴⁸ Although, in general, he merely described the process of collection and disbursement of the fund and gave some related statistics (such as those presented above), it is interesting to look at his opinion of the overall condition of the institution.

He admits that the collection was rather unsatisfactory (*kurang memuaskan*)

⁴⁵ For the complete procedure of disbursement, refer Peraturan Kutipan dan Pembahagian Zakat Fitrah Selangor (Pindaan) 1973; Abdullah, "Struktur, Organisasi dan Fungsi Jabatan", 99-103

⁴⁶ Nasir, "Development of the Secular and Religious Taxation", 246.

⁴⁷ Abdullah, "Struktur, Organisasi dan Fungsi Jabatan", 104.

⁴⁸ Abdullah, "Struktur, Organisasi dan Fungsi Jabatan", 97-104.

and offers a few reasons why. According to him, the failure of the IRCS to collect a more satisfactory amount occurred because the Muslims at that time were still unaware of their new obligation to submit the payment to the IRCS or its local agents. The IRCS, for its part, lacked the initiative to promote its role for the purpose of attracting payment. Those who were aware of the mandatory payment simply evaded it, believing that it would not benefit them, since no economic projects in their interests had been carried out by the IRCS in return for their payments.⁴⁹

In sum, it appeared that the condition of zakat administration was still far from satisfactory, despite the fact that the regulation for mandatory payment to the IRCS was already in force. The administrative machinery faced a shortage of competent human resources. Local agents seemed insufficiently competent to collect and disburse the fund at the local level. In the centre, the IRCS was mainly helped by officials from the IRDS. As those officials had their own concurrent responsibilities, it seemed that zakat administration was simply an extra burden for them. Eventually, the collection was mainly drawn from zakat *al- fiṭr* alone. Other types of wealth, including rice, did not apparently contribute much to the total collection. If we refer to the preceding chapter, we can see that this circumstance is consistent with the fact that the economic condition of Muslims during this period was mostly one of poverty. Such a state of affairs exacerbated the difficulty of zakat collection. Altogether, as with the zakat situation in other states, the zakat fund was still far from being a potential financial resource for development.

2. 1970s and 1980s – The force of Islamization and the attempt to improve zakat

As mentioned in an earlier chapter, the Islamization phenomenon in the country and the improvement in Malays' living conditions to a certain extent affected the zakat institution. It was the same in Selangor as elsewhere. In consequence, the collection of zakat in Selangor has slightly improved, especially in relation to the wealth associated with urban activities such as business and commerce.

As also earlier discussed, the federal government initiated seminars and

⁴⁹ Abdullah, "Struktur, Organisasi dan Fungsi Jabatan", 103.

discussions in order to find better ways of improving zakat management. The IRCS supported the effort, not merely offering cooperation but also organizing its own seminars, as we shall see later. It can be asserted that the IRCS in the 1980s showed itself keen to make some improvements and open to all ideas. Perhaps it was because no suitable model had yet been adopted that no significant change could be seen in the overall administration. That is why, in the following decades, the body did not hesitate to adopt the corporatization model, for disbursement as well as collection.

During the Islamization of society in the 1970s, Selangor was the area of Malaysia in which religious movements were most noticeable. ABIM, for example, was very popular among university students. One writer estimated that the ABIM in the 1970s was supported by between 10% and 40% of students at the National University of Malaysia, the University of Malaya and the University of Agriculture.⁵⁰ What is interesting here is that all these institutions were located in Selangor. As ABIM has many activities to offer the wider society apart from university students, such as educational centres for children and school leavers and religious discussion circles open to the public, it might be surmised that the local population was to an extent potentially influenced by the groups.

Two other movements, al-Arqam and Tabligh, were also active in the state. Selangor is the main centre of the al-Arqam movement, its first residential commune having been set up in the 1970s in Sungai Penchala, an area just outside Kuala Lumpur. Although the movement had its special location in which to organize most of its activities, it was not completely withdrawn from society. Al-Arqam has actively conveyed its ideas to the wider society through its founder's talks, recorded and sold in the form of radio cassettes, and also through publications sold to the community at large. The group also ran schools and kindergartens offering basic education to all interested members of the public. The organization also maintained factories chiefly producing foods, garages for mending vehicles and also clinics specializing in maternity services and staffed exclusively by women doctors and nurses.⁵¹ All these activities illustrate the group's mutual relationship not only with its members but also with the wider community. In this respect, since Selangor was

⁵⁰ Nagata, *The Reflowering*, 177.

⁵¹ Nagata, *The Reflowering*, 109.

the first and most important location for the movement's activities, we can safely say that there its impact was probably felt the most.

Tabligh, like the other two movements discussed, has been an active presence in Selangor. As previously mentioned, its focus is on persuading Muslims generally to be more observant and devoted, to fulfil their duties as followers and to avoid any wrongdoing in terms of the tenets of Islam. Selangor has been an important centre of the movement since the 1970s. Since Tabligh originated in India, prior to the 1970s, when Malays were still not familiar with any religious movement, the group merely comprised a few members of the Indian Muslim community, especially in Kuala Lumpur. In the early 1970s, as the Tabligh started to invite Malay religious figures (including al-Arqam's founder) to give talks, it was gradually accepted by Malay Muslims, especially in Kuala Lumpur (still under Selangor), where many mosques in the area became its headquarters.⁵² The main headquarters occupied Masjid India (Indian Mosque) in the heart of Kuala Lumpur, before moving to a better and bigger mosque in Seri Petaling, another section of Selangor, in the early 1990s.

As noted earlier, the zakat collection was also influenced by the economic improvement experienced by Malays. The Malaysian government in the mid-1970s encouraged migration from rural to urban areas as a strategy for freeing Malays from overdependence on subsistence agriculture. As a result, the decades of the 1970s and 1980s saw the rise of urbanization in Malaysia in general and Selangor in particular. Selangor in these decades was the fastest-growing state in the country in terms of urban population. A number of towns in Selangor, such as Petaling Jaya, Shah Alam, and Ampang, have since been among the most densely populated areas in Malaysia due to the abundant job opportunities there.⁵³ During the 1980s, more than half a million people, mainly from predominantly Malay states such as Kelantan, Negeri Sembilan and Johor, moved into Selangor.⁵⁴ In addition, average annual income in

⁵² Zolhairi Zolkipli and Mohd Fauzi Sukimi, "Tablighi Movement, A Review on History, Philosophy and Rites of Passage", Paper presented in International Conference on Social Science, Economic and Art 2011, Bangi- Putrajaya, 2011, 237.

⁵³ Saw Swee Hock, *The Population of Malaysia*. (Singapore: ASEAS, 2007), 19, 25.

⁵⁴ Hock, *The Population of Malaysia*, 52.

the state increased from RM3363 in 1970s to RM4668 in 1980, which meant that the economic conditions of the population as a whole had improved.⁵⁵

The changes in people's attitudes towards religion, as well as in their economic circumstances, probably sparked awareness in the IRCS, as a result of which the body made some changes in zakat administration in the state. In the early 1970s, for example, by contrast with previous decades when the administration of zakat was the personal responsibility of the Secretary of the IRCS, a zakat unit was now established in the centre, manned by a few staff members who administered the fund.⁵⁶

The IRCS also introduced some changes in its collection and disbursement procedures, in order to improve the collection and boost the people's confidence in the body. For instance, the IRCS, rather than appointing agents unilaterally, set up a committee in every village to nominate them. The agent also no longer had the power to disburse the collected fund personally, but was required submit it all to the centre after deducting his portion (one-eighth).⁵⁷ Apart from that, at the central office and each district office, the IRCS empowered the secretary or district judge to scrutinize the financial accounts of every business belonging to Muslims in his area.⁵⁸

Eventually the fund collected in this era was slightly higher than that which had been raised previously. By the end of the 1970s, the zakat collection amounted to more than RM1 million. And, in keeping with the above analysis pertaining to urbanization in the state, the zakat fund collected in urban areas was higher than that collected in rural areas. In 1978, the collection in the urban IRCS offices in Klang and Shah Alam amounted to respectively RM270,000 and RM104,000, much higher than in the rurally based offices of Sabak Bernam and Kuala Selangor, where the collection totalled only RM58,000 and RM78,000.⁵⁹

According to a number of reports, the zakat collection in the state also gradually increased in the 1980s, as outlined below:

⁵⁵ Shireen Mardziah Hashim, *Income Inequality and Poverty in Malaysia*. (Maryland: Rowman & Littlefield, 1998), 140.

⁵⁶ Khalid, "Islamic Law and Land", 289.

⁵⁷ Peraturan Kutipan dan Pembahagian Zakat Fitrah Selangor (Pindaan) 1973, No.7.

⁵⁸ Peraturan Kutipan dan Pembahagian Zakat Fitrah Selangor (Pindaan) 1973, No.9.

⁵⁹ Khalid, "Islamic Law and Land", 349.

**Table 6.1: Zakat Collection in Selangor According to the Type of Wealth
from 1980 to 1988 (in RM)**

Year	<i>al- Fiṭr</i>	Zakat on business and property	Paddy	Amount
1980	1180338	179571	38572	1398481
1981	1248711	384841	44839	1678391
1982	1403302	369536	55392	1828230
1983	1537181	483178	29373	2049732
1984	1577708	1089292	23324	2667000
1985	1785030	900000	23000	2685030
1986	1961030	1160000		3121030
1987	1715300	1700000		3415300
1988	1855000	2060000		3915000

Sources: Adapted from Khalid, "Islamic Law and Land" 348; Wahab *et.al*, "Case Study: Malaysia", 361; Tarimin, *Zakat Pertanian*, 60.

On the basis of the table, we can offer a few observations. There was clearly a particular increase in collection from the types of wealth related to commerce and trade, a change indicating the urbanization and economic betterment of city-dwelling Muslims. It also suggests a higher level of religious awareness among them, since payers of zakat on this type of wealth were required to submit their payment personally to the IRCS offices, a procedure which at that time could entail considerable effort. In this regard, although the IRDS had the power to force business owners to pay zakat, having scrutinized their financial accounts, we doubt that such a situation ever actually arose. Since the district judge and the Secretary of the IRCS (who was also the Director of the IRDS) were understood to have their own key responsibilities, it would have been quite impossible for them to monitor all businesses in the district personally.

As for the increase in collection of zakat on rice, the changes in collection practice, earlier introduced by the IRCS, could to a certain degree have succeeded in encouraging people to pay. Apart from that, we cannot reject the possibility of a change in rural Muslims' attitude towards their religion. After being in operation for a decade, the religious groups might well have penetrated into rural areas. But the collection from this type of wealth could not be expected to have exceeded that from

business and commerce, since the rural farmers, as mentioned in the previous chapter, were regarded as lagging behind the urban dwellers economically.

The higher collection, however, was not followed by better distribution, in particular for poverty alleviation. Annually, each poor person received no more than a mere RM40. In 1977, for example, the poor received RM7 annually while the needy were allocated RM20 each. In 1982, the allocation was slightly raised to RM15 for the former and RM38 for the latter group.⁶⁰ Such amounts would definitely not change their economic conditions, as RM38 in the 1980s could only pay for approximately 20 kilograms of rice. We calculate that such a sum might suffice for a poor family for perhaps a month or two.

Since the IRCS has hardly ever released an annual report showing how the fund was disbursed, we believe that most of it was used for other purposes such as administration and other IRCS activities. Such disbursement has been broadly categorized in the state as *fī sabīl allāh* (in the way of Allah), *Muallaf qulūbihim* (those whose hearts are reconciled) and *al-Riqāb* (converts or those who are bonded). The disbursement under these headings were usually in the form of religious programs and classes, scholarships for religious education, financial assistance for mosques and many other IRCS programs.⁶¹ In 1986, for instance, from a total disbursement of RM2,228,914, only RM404,358 went to the poor and needy.⁶²

Although there were still many weaknesses in the IRCS operation, the body generally began to make a visible effort to improve its administration. Besides fully supporting the research and seminars arranged by the federal government, the IRCS started organizing its own seminars, inviting scholars from outside as well as from within the state. In January 1980, for example, it organized a seminar on zakat, at which five papers were presented. They mainly discussed the problems of zakat collection not only in Selangor but also in Malaysia as a whole.⁶³ Another seminar, under the title of Zakat Selangor, was organized in 1988. Three papers were

⁶⁰ Wahab *et.al*, "Case Study: Malaysia", 368.

⁶¹ For the discussion about the disbursement mechanism under each group see, Khalid, "Islamic Law and Land", 301-308.

⁶² Ghazali, "Zakat Administration", 101.

⁶³ Seminar on Zakat 1980, organized by IRCS, Petaling Jaya, 2-6 January 1980.

discussed at this event, all of them related to the collection mechanism and challenges posed by the process.⁶⁴

What is important here is that the IRCS was not merely receptive to efforts of the federal government, but initiated its own projects. Together with some changes introduced earlier by the body, these moves indicated its keenness to improve the administration of the fund and adequately demonstrated the body's openness to positive change.

Based on the discussion in this section, we can thus summarize by saying that the development of the zakat institution in Selangor in the 1970s and 1980s was aided by the Islamization of society and to a certain extent was concomitant with the improvement in Muslims' economic conditions. The collection of the fund in this period appeared to increase slightly, especially in relation to the wealth derived from business and commerce.

In response to these developments, the IRCS made some changes in its operation and also organized a few seminars to investigate ways of improving its performance. The overall enhancement of zakat management, however, had not yet materialized in this phase, as the body was still searching for ideas and seemed receptive to any potential solution. Significant change in zakat administration only materialized when the following decade was ushered in.

3. Corporatization of zakat in Selangor – zakat for financial source of development

In the 1990s, the IRCS continuously showed its interest in improving the zakat operational system. The corporatization in Federal Territory indeed opened the eyes of the IRCS to the possibility of employing similar mechanisms for zakat management. Eventually, Selangor became the second state, following Federal Territory, to apply such an initiative.

The registration of the corporate zakat body as a private limited company called MAIS Zakat Sdn Bhd was carried out in early October 1995.⁶⁵ The process of

⁶⁴ Seminar Zakat Negeri Selangor, Shah Alam, 17 December 1988.

corporatizing the organization cost the IRCS approximately RM500,000.⁶⁶ For the first few years, the company was known as Pusat Pungutan Zakat (PPZ MAIS). To avoid confusion with the neighbouring state's zakat institution, its name was later changed to the Selangor Zakat Centre (Pusat Zakat Selangor or SZC), on 30 October 1996.⁶⁷

The corporatization approach was chosen for its actively proven effectiveness in Federal Territory. Additionally, the ICRS regarded such an initiative as the best choice in that it freed the body from reliance on IRDS support. The IRCS realized that the limited financial provision from Selangor's state government for religious administration (through the IRDS) meant that no extra funds could be used for the improvement of zakat administration. Hence, corporatization not only was ideal because of its potential for collecting more funds, but also suited the financial capacities of the IRCS and of the state government.⁶⁸

Regarding the establishment of corporate administration of zakat in Selangor, there were a few indications that the state's project was related to and to some extent benefited from the earlier development of the zakat institution in Kuala Lumpur:

1. The idea and practical source was the Islamic Religious Council of Federal Territory (IRCFT), the only council that had introduced corporate collection. On 18 May 1993, a group of IRDS representatives, comprised of its director and members of a special committee formed to study the zakat organization in Selangor, paid a visit to the Zakat Collection Centre of Federal Territory to have a closer look at the running of the newly corporatized zakat institution.⁶⁹

The person behind the process was the IRDS Director/IRCS Secretary at the

⁶⁵ Normala M. Sa'ad, "Tahniah Pusat Zakat Selangor Kini 10 Tahun" *Asnaf*, 1/2004, 4; Pusat Zakat Selangor, *Laporan Tahunan 2000* (Shah Alam: PZS, 2000), 3; Sanep Ahmad *et.al*, "Penswastaaan Institusi Zakat dan Kesannya Terhadap Pembayaran Secara Formal di Malaysia", *IJMS* (13)(2) (2006): 179.

⁶⁶ This amount was paid by ICRS which mainly derived from the previous zakat collection. Sa'ad, "Tahniah Pusat Zakat", 5; Pusat Zakat Selangor, *Laporan Tahunan 2000*, 5; "Keputusan Fatwa Negeri Selangor", http://www.c-fatwa.gov.my/mufti/fatwa_warta_view.asp (accessed March 3, 2010).

⁶⁷ Sa'ad, "Tahniah Pusat Zakat", 4; Ima Syuhada Ismail, "Menyingkap Sejarah 15 Tahun LZS", *Asnaf*, 2/2009, 8. Pusat Pungutan Zakat, *Laporan Tahunan 1995* (Kuala: Lumpur, 1996), 30.

⁶⁸ Ismail, "Menyingkap Sejarah", 8.

⁶⁹ Pusat Pungutan Zakat, *Laporan Zakat 1993*, 41; Ismail, "Menyingkap Sejarah", 8-9.

time, who had convinced IRCS members to adopt the new mechanism of zakat management in the state.⁷⁰

2. The key officers, including the first Chief Executive Officer of Selangor Zakat Centre, were former executives of the Zakat Collection Centre of Federal Territory. As a former officer in the centre, he was head of Business Owners (a unit focusing on collecting zakat on business) in 1994.⁷¹ Apart from him, there was also a former staff member of a similar organization, who went on to hold the highest position in the collection department.⁷²

Administratively, the SZC at its infant stage had been under the direction of a handful of officers in Petaling Jaya. From 1994 until 1997, the SZC was only responsible for collection activities, with the disbursement function still being handled by the IRCS zakat unit. Both the collection and disbursement systems were handed over to the SZC only after 1998.⁷³ Indeed, Selangor was the first state to take the bold step of placing both collection and distribution within one corporate entity. This was made possible by the confidence of the IRCS that, under the corporate operation, the development of the zakat institution could be accelerated.

The SZC existed until the mid-2000s, the entity being slightly changed when the IRCS saw that the collection was nearly RM100 million, a huge amount for a small private limited company. In 2006, the body was changed into a trust entity known as Lembaga Zakat Selangor (Zakat Board of Selangor or ZBS).⁷⁴ This action represented a step further towards instilling the confidence to prepare organizationally for the greater role of zakat in the state.⁷⁵

The change in the organizational structure of zakat (from SZC to ZBS) was an IRCS measure which kept the body securely under its power, giving the zakat

⁷⁰ Ismail, "Menyingkap Sejarah", 8-9.

⁷¹ Pusat Pungutan Zakat, *Laporan Zakat 1992*, 5; "Safri: Perintis Era Baru Pengurusan Zakat", *Asnaf*, 1/2004, 20.

⁷² Lembaga Zakat Selangor, *Laporan Tahunan 2008* (Shah Alam: LZS, 2009), 9; Pusat Pungutan Zakat, *Laporan Zakat 1994*, 60.

⁷³ Hamizul Abd Hamid, "Evolusi 15 Tahun LZS", *Asnaf*, 2/2009, 6; Pusat Zakat Selangor, *Laporan Tahunan 2000*, 3.

⁷⁴ The new body was registered under Trustee (incorporation) Act 1952. Ima Syuhada Ismail and Norazimah Mohd Rayes, "LZS (MAIS): Satu Transformasi", *Asnaf*, 1/2006, 10.

⁷⁵ Normala Md. Sa'ad, "Lembaga Zakat Selangor Lembaran Baru PZS", *Asnaf*, 1/2006, 6; Normala Md. Sa'ad and Akhtar Sahari, "Naik Taraf LZS (MAIS) Pengiktirafan Tidak Ternilai", *Asnaf*, 1/2006, 8; Lembaga Zakat Selangor, *Laporan Pengurusan Zakat Selangor 2006* (Shah Alam: LZS, 2007), 10.

body more room to make its own decisions. In this respect, the ZBS is governed by trustees appointed by the ruler at the corporate level. The fact that many of them hold IRCS membership at the same time shows that the ZBS is still under the auspices of that organization.⁷⁶

Besides this, six committees were formed to help both trustee members and operational officials in determining the direction of the organization and simultaneously making important decisions. These committees are also responsible for supervising all activities of the ZBS and ensuring that the process of overall zakat administration is run smoothly, in accordance with what is outlined in the operating procedures.⁷⁷

The formation of these committees led to the ZBS having more power to make decisions and fewer bureaucratic problems. For example, the ZBS, with the approval of its human resource committee, has over time easily expanded its workforce to about 200; prior to that, under the SZC, it had only about 100 staff.⁷⁸ As for financial matters, the new body, with its committee's approval, can make payments to any zakat recipients or meet corporate expenses, up to RM500,000, without necessarily meeting with the IRCS.⁷⁹

Another interesting point worth mentioning is that the establishment of the ZBS was actually part of a continuous effort by the IRCS to strengthen the organization with the aim of forming a poverty eradication body. This strategy reflected the objective of the new management as compared to that of the old.

The stipulated objective of the old body (SZC) was merely to improve zakat administration, in the hope of eventually gaining society's confidence in the zakat institution.⁸⁰ No specific statement was made about poverty eradication. It therefore seemed that the IRCS was focused more on ensuring that the newly established SZC could increase its zakat collection.

⁷⁶ Ahmad Shahir Makhtar, "Strategi Lembaga Pengelola Zakat Dalam Mengurangi Kemiskinan" in *Southeast Asia Zakat Movement*, ed. M. Ariffin Purwakananta and Noor Aflah (Jakarta: Forum Zakat, 2008), 177; Lembaga Zakat Selangor, *Laporan Pengurusan Zakat Selangor 2006*, 2.

⁷⁷ Lembaga Zakat Selangor, *Laporan Pengurusan Zakat Selangor 2006*, 10-11; Lembaga Zakat Selangor, *Laporan Pengurusan Zakat Selangor 2007* (Shah Alam: LZS, 2008), 15.

⁷⁸ "Sejarah", <http://www.e-zakat.com.my/sejarah-lzs/> (accessed June 3, 2011).

⁷⁹ Lembaga Zakat Selangor, *Laporan Pengurusan Zakat Selangor 2009* (Shah Alam: LZS, 2010), 19.

⁸⁰ Pusat Zakat Selangor, *Laporan Tahunan 2000*, 4.

By contrast with the former, the ZBS currently strives to achieve five objectives: strengthening zakat management, maximising the collection potential, eradicating poverty, improving the socio-economic conditions of the Muslims, and providing a quality service.⁸¹ The clear stipulation of poverty eradication as an aim indicated a serious effort by the new organization to reduce poverty through better disbursement.⁸² Indeed, the gradual development of zakat corporatization by the state could be considered an Islamization initiative towards the goal of poverty eradication. The collection and disbursement of the fund under the corporatized administration will be further discussed below.

a. The better collection

Since its formation, the ZBS (and also the SZC) has been using a persuasive approach to attracting payers. This factor is important, since the body, although mandated as sole collector in the state, has no right to scrutinize an individual's bank account; hence the zakat payment still depends mainly on individual willingness. To this end, the ZBS has implemented innovative programmes such as lectures and informative briefings as well as promotion and advertising. In lectures and informative briefings, the ZBS cultivates awareness and reminds people of their obligation to pay zakat. The potential payers will also be shown how to calculate their zakat on the basis of their personal revenue before making any payment to the ZBS.⁸³

The ZBS has also, through time, been organizing promotional activities and advertising in local media. In this context, the body has collaborated with local newspapers and TV to publish news about the development of zakat in the state. This project is important for informing Muslims about the enterprises related to zakat.⁸⁴ What the ZBS has done in these areas could be seen as a continuation of the propagation activities carried out earlier by the religious movements, although

⁸¹ Lembaga Zakat Selangor, *Laporan Pengurusan Zakat Selangor 2007*, ii.

⁸² Makhtar, "Strategi Lembaga Pengelola", 178; Sa'ad, "Lembaga Zakat Selangor", 7; Sahadan Ishak, "PZS (MAIS) Ke LZS (MAIS): Satu Titik Perubahan", *Asnaf*, 1/2006, 4; Sa'ad and Sahari, "Naik Taraf LZS (MAIS)", 8.

⁸³ Lembaga Zakat Selangor, *Laporan Pengurusan Zakat Selangor 2006*, 20-21; Syawal Kasam, "Governing Zakat as a Social Institution: the Malaysian Perspective", in *Southeast Asia Zakat Movement*, ed. M. Ariffin Purwakananta and Noor Aflah. (Jakarta: Forum Zakat, 2008), 115; Noormala Mohd Sa'ad and M. Azizan Abdullah, "Syukur RM108 juta", *Asnaf*, 1/2005, 28.

⁸⁴ "DYMM Sultan Selangor Lancar Bulan Zakat Negeri Selangor", *Asnaf*, 1/2007, 22; Pusat Zakat Selangor, *Laporan Pengurusan Zakat Selangor 2005* (Shah Alam: PZS, 2006), 28-29.

perhaps in slightly different form. In fact, the ZBS has formed a unit named *Dakwah Unit* (the call/propagation unit) to implement all the above activities. For local people, *Dakwah* is actually a popular term associated with the religious movements, with reference to their propagation ventures.⁸⁵

To relieve the payers of the need to visit the ZBS offices personally to make payment, the body has appointed professional collection agents.⁸⁶ From early in its formation up to 2010, more than ten banks and financial institutions have become agents of collection. Besides that, payment by other means such as internet, post and direct deduction from personal monthly salaries has been introduced.⁸⁷ It is hoped that the wide range of convenient payment methods will induce the prospective contributors to be more willing to pay.

Besides propagation and improved collection mechanisms, the ZBS believes that contributors should be informed as to how the fund is spent. This action is important for retaining the loyalty of existing payers so that they might become long-term contributors. The chief method for keeping them informed is through the organization's key publications and media, namely *Asnaf*, a quarterly magazine, the Annual Zakat Report, and the organization's official website. Through these means, activities of the organization, including distribution statistics, will over time be reported as part of its commitment to transparency.

In short, many changes have been initiated to attract zakat payers. The measures introduced have actually been aimed predominantly at attracting accelerated payment from urban middle-income people, focusing on sources such as professional salaries, personal savings and business revenue. Such special attention can be observed in the campaign and information briefings, as these programs are commonly arranged in association with companies and targeted on professional income earners. On top of that, as rural dwellers have the local agents to collect zakat, the innovative appointment of financial institutions and the introduction of numerous other ways to pay zakat could be seen as efforts to make it easier for Muslim professionals to meet their obligations. In this context, it is evident that the

⁸⁵ Anwar, *Islamic Revivalism*, 15.

⁸⁶ Kasam, "Governing Zakat", 115; "LZS Lantik Angkasa Sebagai Agen kutipan Zakat", *Asnaf*, 2/2009, 27; Pusat Zakat Selangor, *Laporan Pengurusan Zakat Selangor 2005*, 34.

⁸⁷ Lembaga Zakat Selangor, *Laporan Pengurusan Zakat Selangor 2010* (Shah Alam: ZBS, 2011), 23.

internet, direct salary deduction and banks are methods and institutions commonly associated with middle-income society.

After corporatization, zakat collection soared to approximately RM11 million in 1994 from merely RM8 million in 1993, and has consistently increased since then.⁸⁸ The annual performance of the collection from 1994 through 2008 can be observed in the following table:

**Table 6.2: Collection amount of zakat after corporatization
1994-2008 (in RM)**

Year	<i>al- Fiṭr</i>	Zakat	Collection
1994	2910376	8621006	11 531 382
1995	3140022	12755296	15 895 318
1996	3650595	24976271	28 626 866
1997	4998379	26351771	31 350 149
1998	4435486	32932815	37 368 301
1999	4526309	30739166	35 265 475
2000	11379998	39966873	51 346 871
2001	6271942	55160808	61 432 751
2002	7968825	70937301	78 906 126
2003	8277365	78016867	86 294 232
2004	9085932	98734674	107 820 606
2005	9338255	123818131	133 156 386
2006	9896315	150037698	159 934 013
2007	11554176	190534968	202 089 144
2008	12267963	232204921	244 472 884

Sources: *Asnaf*, various issues; Pusat Zakat Selangor, *Laporan Pengurusan Zakat Selangor*, various issues; Lembaga Zakat Selangor, *Laporan Pengurusan Zakat Selangor*, various issues; Kasam, “Governing Zakat” 113-114.

The record of consistent increase in collection indicates that the corporatization mechanism adopted from the neighbouring Zakat Collection Centre of Federal Territory has successfully improved the zakat system in Selangor. If we examine the table, we find that, unlike zakat collection prior to corporatization, which was mostly derived from *al- fiṭr*, this type of wealth is no longer the main

⁸⁸ Rozita Marsidi, “Zakat dan Peranannya dalam Meningkatkan Taraf Ekonomi Umat Islam, Kajian Khusus di Negeri Selangor”, BA dissertation, University of Malaya, 1994, appendix 16.

contributor to the overall collection.⁸⁹ Although the amount of *al- fiṭr* collected has indeed been growing steadily, the increase is merely a reflection of the growing population.⁹⁰

More detailed statistics of zakat collection by the ZBS from 2000 to 2008 can be found in Appendix 1. As we can see from the table, professional income contributed considerably to the total fund, amounting to between 27% and over 50%. The greater portion of zakat revenue from this type of wealth indicates, as earlier mentioned, that, due to urbanization and economic development in the state, more Muslims have become involved in urban-based economic activities. Indeed the greater attention paid by the ZBS to this segment of the population is a reflection of such phenomena.

By contrast, the collection of zakat on cereal (rice), which was among the main sources of wealth prior to corporatization, never reached 2% in this particular recorded period. In this respect, unlike the pattern in the 1950s and 1960s, when farmers were ignorant of their responsibility or simply evaded it because of mistrust of the IRCS, the situation changed after corporatization. The farmers are now considerably observant of their religious obligation, as the record shows a slight increase in collection of this type of wealth, as well as a higher collected sum than in the period prior to corporatization.

The more substantial reason for this situation is the general economic condition of farmers, which has lagged behind that of urban middle-class income earners. Although their living conditions are now improved over those of the previous decades, they still rely on support and help from the government. Price subsidies on rice and other forms of government agricultural support, such as fertilisers and pesticides, suggest that farmers are still among groups who require

⁸⁹ Zakat collection in Selangor in 1970-s and 1980-s had been dominated by *al- fiṭr*. The *al- fiṭr* was then about between 60 to 80 percent from overall collection. Ghazali, "Zakat Administration", 98; Khalid, "Islamic Law and Land", 295.

⁹⁰

Year	2004	2005	2006
<i>Al- fiṭr</i> payer (million)	1.933	1.986	2.105
Malay population (million)	2.396	2.471	2.542

The table shows the statistic of Malay population in the state and total *al- fiṭr* payers between 2004 to 2006. The gradual increment of both variables could fairly indicate that the payer of *al- fiṭr* increased as the total Malays went up. Lembaga Zakat Selangor, *Laporan Pengurusan Zakat Selangor*, various issues; UPEN, *State and Local Authority*, 1.

help and should not be burdened with the need to pay taxes, including zakat. Indeed, in this aspect of the collection, the ZBS approach of giving extra attention to richer Muslims in the urban areas shows that the body clearly understands the modern development approach, whereby taxation should take account of economic conditions in society.

To sum up, the corporatization of zakat in Selangor has successfully raised the total collection of zakat in the state. The corporatization was an Islamization project on the part of the IRCS and the state of Selangor in response to the increase in religious awareness in society in the 1980s. Many improvements in the collection system have been initiated, focusing on the better-off urban population, with the result that the zakat has been derived mainly from personal income and business.

The increase in collection, however, imposes greater responsibility on the ZBS. To ensure a sustainable collection, the organization must show a stronger commitment to more effective disbursement of the fund. In this context, poverty eradication is one of the main approaches towards which the ZBS is intensifying its efforts.

b. Disbursement for poverty eradication

Corporatization not only brought about better fund collection. The new management approach improved the disbursement system, directing it towards greater use of the fund for poverty eradication.

Before corporatization, the IRCS in its distribution mechanism seemed to give only scant attention to poverty eradication, the fund being substantially used for administrative and other IRCS costs. The body did not have clear guidelines and policies which would enable the disbursement function to be exercised effectively. As the zakat unit did not have sufficient staff, it mainly relied on local agents to determine and name eligible recipients, especially from among the poor people in their respective localities. Eventually, as also stated in the preceding section, the disbursement, particularly for the poor, was only in the form of money given to them once annually during *Ramadān*. After all, the role of the IRCS was regarded as merely one of distribution, without consideration of the fund's potential for developing the recipients economically.

The disbursement function that was later corporatized in 1998. Soon after receiving a fresh mandate for distribution, the ZBS realized that the system should be updated and reorganized. The body was also aware that there was a sum of approximately RM19 million in undistributed funds, putting pressure on the newly mandated corporate organization to find a better way to solve the problem.⁹¹ It was actually from this point in time, that the ZBS began to grasp the importance of directing zakat more towards poverty eradication.

As a measure to improve its distribution system, the ZBS sought views from various local scholars through a workshop organized in December 1999. At this workshop, the panels discussed many aspects of disbursement such as its mechanism, the definition of recipients and the disbursal programs. The workshop eventually made some suggestions as to how to improve the disbursement system.⁹²

The workshop suggested that disbursement, although it must be inclusive of all eligible recipients, must give priority to poverty eradication ahead of other expenditure. Such a prioritization is consistent with God's ruling in the Quran, which clearly puts the poor and needy in first place.⁹³ Stemming from the resolution outlined by the workshop, the ZBS in 2002 issued a book entitled *Fatwa Pengurusan Agihan Zakat Negeri Selangor* (Fatwa on Administration of the State of Selangor Zakat Disbursement) as general guideline and policy statement for the ZBS in administering the fund.⁹⁴ Through the book, the ZBS outlined an improved guideline for determining which recipients were entitled to aid.

In order to properly assess a person's eligibility to be considered poor, the ZBS introduced the *ḥad al-kifāya* or subsistence limit. The formula is based on the minimum amount of money one requires for necessities, encompassing six essential

⁹¹ Pusat Zakat Selangor, "Catatan Ringkas Bengkel Mengemaskini Sistem Agihan Zakat Negeri Selangor", Workshop on Improving Zakat Disbursement System, Ampang, 4 and 5 December 1999, 21; "Sistem Agihan Zakat Diberi Nafas Baru", *Asnaf*, 1/2000, 1.

⁹² Pusat Zakat Selangor, "Catatan Ringkas".

⁹³ Pusat Zakat Selangor, "Catatan Ringkas".

⁹⁴ Jabatan Mufti Selangor, "Fatwa Committee Meeting Minute", No. Mesyuarat J/Fatwa 5/2001; Zarina Jantan, "Takrif Fakir dan Miskin Menurut Haddul Kifayah", *Asnaf*, 2/2004, 24; Lembaga Zakat Selangor, "Kertas Cadangan Fatwa Penetapan Had Kifayah Negeri Selangor 2007-2010", Proposal submitted to Fatwa Committee, 1/4/07; Azhana Abdul Mutalib, "Keciciran Fakir Miskin Punca dan Menanganinya", *Asnaf*, 2/2004, 4.

elements of life: food, shelter, education, transportation, clothing and medication.⁹⁵ Using this indicator, the ZBS calculated that the minimum monthly income for an individual was between RM130 for an infant and RM680 for the head of a family.⁹⁶ Having less than the specified limit, one could be categorized as poor and qualify for aid from the zakat fund. Appendix 2 clarifies how the formula works.

The poor (*miskin*), for example, are defined as Muslims whose wealth or income barely suffices to cover 50% or more of their needs and those of their dependents. The needy or poorest (*faqir*) category of recipients technically refers to Muslims who have no wealth or income at all, or less than 50% of the amount required to meet their own and their dependents' needs. Apart from that, it could refer to those without a lawful vocation. For this group of recipients the similar indicator of *had al-kifāya* will be applied.⁹⁷ The establishment of the formula is crucial to easing the process of zakat application, whereby the ZBS can identify the position of the applicants straight away and determine whether they are poor or poorest. The standard focuses on the main breadwinner in a family; consequently those with more dependents would have a higher sufficiency limit.⁹⁸

From the above guidelines and policy statement, it seemed that the disbursement for the poor and needy had to be given more attention. Apart from that, the guidelines also suggested that the disbursement should not merely aid the poor temporarily but also empower them permanently. Empowerment here means helping the recipients to improve their capabilities so that they need not continue to depend on zakat money. We will discuss about it again later.

Improvement of the disbursement practice could not materialize, however, only through new formulas and guidelines. Thus, the ZBS made changes to the handling of selection and application approval. After the corporatization of fund

⁹⁵ The determination of the *had al-kifāya* was based on the study carried out by SZC in 2001. The study revealed that the cost of living in the urban and rural area was respectively RM900 and RM750. Ibrahim, "Economic Role of Zakat", 6.22; Mohd Zool Fadli Mohd Noor, "Apa Itu Had Kifayah", *Asnaf*, 3/2009, 29.

⁹⁶ Lembaga Zakat Selangor, "Penentuan Had Kifayah Selangor 2006-2010", Working paper submitted to Fatwa Committee, No. 1/5/2006; Jantan, "Takrif Fakir dan Miskin", 24.

⁹⁷ Jabatan Mufti Selangor, "Fatwa Pengurusan Agihan Zakat Negeri Selangor", Unpublished book for ZBS internal guideline, 7-21; Noormala Mohd Sa'ad, "Bantuan Khusus Fakir, Miskin dan Muallaf", *Asnaf*, 2/2005, 31; Akhtar Sahari, "Zakat Membela Golongan Muallaf", *Asnaf*, 3/2005, 31, Sahadan Ishak, "Asnaf Riqab- Pembebasan Daripada Terbelenggu", *Asnaf*, 4/2005, 31.

⁹⁸ Mutalib, "Keciciran Fakir Miskin", 4; Ibrahim, "Economic Role of Zakat", 6.21.

disbursal, the ZBS did not rely entirely on local agents; the ZBS officers at district level were considerably empowered. Local agents would suggest names of those they deemed eligible for the zakat fund and ask them to fill out application forms. Zakat officers, upon receiving the proposed names (through the application forms), would visit and investigate each individual before deciding whether to approve or reject the application. Additionally, the officers could call on the local zakat committee, comprising local agents and the head of the village, to help in making the decision.⁹⁹ Hence, in a departure from previous practice, which was dominated by the local agents' personal opinions, the decision on zakat recipients now involves many individuals and is closely monitored by the ZBS.

To ensure that the recipients can effectively utilize the given money and be permanently released from the poverty trap, the ZBS no longer merely distributes the fund but also concurrently promotes the individual development of the recipients. In this respect, the recipients' individual needs will be ascertained. In addition to monetary aid and other basic necessities such as food and education, those with the potential for any economic activities will be given help in accordance with their expertise. Since corporatization, the disbursement of business capital and basic tools for agricultural or fishing activities have been among the popular fund distribution practices brought in by the ZBS. Indeed, the ZBS's introduction of its improved disbursement policies and guidelines has been expanded into the greater attention given to poverty eradication and eventually to the initiation of income generation programs. The whole process and accompanying analysis of income generation in Selangor will be further detailed in the next chapter.

Besides the increased concern with disbursal for poverty eradication, the amount given to the groups of poor and needy was also raised after the corporatization. We should not, however, jump to the conclusion that fund disbursal after corporatization would always provide the poor and needy with the highest amount compared to the other groups. As a body under the IRCS, the ZBS found it hard to repeal all the old practices. The zakat fund is still used for financing IRCS activities, mainly under the heading of *fī sabīl allāh* (in the way of Allah). In Selangor, under this category the fund normally goes to wide range of spending such

⁹⁹ Mutalib, "Keciciran Fakir Miskin", 4-5.

as religious schools expenditures, mosques building and maintenance, variety of *dakwah* and religious programs, education scholarships as well as religious officials' salary and allowance.¹⁰⁰ In this context, thanks to the significant jump in funds from the constantly growing collection, the provision for the poor and needy could be increased, but without cost to other groups.

Table 6.3: Zakat distribution from 1999 to 2008

Year	Amount in RM
1999	31 673 722.25
2000	32 045 744.98
2001	52 529 725.65
2002	66 843 412.58
2003	85 240 949.41
2004	100 937 028.00
2005	114 170 658.14
2006	146 905 517.00
2007	176 979 357.00
2008	188 998 771.00

Sources: *Asnaf*, various issues; Pusat Zakat Selangor, *Laporan Pengurusan Zakat Selangor*, various issues; Lembaga Zakat Selangor, *Laporan Pengurusan Zakat Selangor*, various issues

The above table gives the basic statistics showing the continuous increment in the disbursement since the early corporatization period. The consistency of the fund to be disbursed shows the strength of the corporatization system.

The ZBS has been distributing the fund to all eight eligible recipients as outlined in the Quran without any exception. The detailed statistics of annual disbursement from 2000 through 2008, based on the eligible recipients, can be referred to in Appendix 3. They clearly show that the disbursement went to a greater extent to three main groups: namely, *fī sabīl allāh*, the poor, and the zakat agents.

As indicated in the table, the allocation for *fī sabīl allāh* has been the highest in every year. Zakat, as mentioned earlier, has been the main contributor to the financial resources of Islamic activities in Selangor. This is an ongoing obligation

¹⁰⁰ Refer annual reports for complete distribution programs: Lembaga Zakat Selangor, *Laporan Pengurusan Zakat Selangor*, various issues.

and part of the traditional expenditure of the IRCS. However, the records show that, from 2006, there was no significant increase in allocation for this group, indicating that the ZBS has no plans to give more attention to this group or to widen the definition of *fī sabīl allāh*.

In proportion, as the appendix clearly shows, the allocation for the poor has increased from less than 20% in 2000 to between 25% and 30% after that. On top of that, since 2008, the allocation for the poor and needy together exceeded the provision for other groups including *fī sabīl allāh*. Thus, the ZBS has confirmed its commitment and outlined the eradication of poverty as a clear target.

In sum, the corporatization of zakat disbursal under the ZBS has led to the improvement of the distribution function. The ZBS, in this context, has made efforts such as the introduction of guidelines and policies for the disbursement system. Realizing that zakat should be used for poverty eradication, the body has given attention to the disbursement for this group without neglecting other groups.

c. Engendering zakat as financial source for state development

As the corporatization seemed fruitful in inducing zakat payment, the institution has been slowly projected as playing a broader role in economic policy in the state of Selangor. The ZBS has increasingly become the focal point of state government in its approach to state poverty eradication.

The recognition of the institution by the state government actually goes back as far as early 1995. During that year, the IRCS used zakat money to contribute to the state government's project to build accommodation for poor households. This initiative was a joint venture among a number of government and corporate bodies, involving district councils, a power company, and a trust body under government supervision.¹⁰¹

Since, during this period, poverty eradication had yet to become the main target of the IRCS, it seemed that such steps were still regarded as occasional

¹⁰¹ Normala Mohd Sa'ad, "Penempatan Asnaf Dahulu dan Sekarang", *Asnaf*, 3/2007, 10.

supports for government projects. In this project, the IRCS contribution amounted to only RM5000 for each house with involvement in only 22 houses.¹⁰²

The intention to give the ZBS a more active role in reducing poverty in the state was not merely voiced by the government but also positively responded to by the IRCS. In this context, the Selangor Chief Minister, during a ceremony organized by the ZBS in 1999, called for a more proactive way of using zakat money, and suggested that the body be more active in poverty eradication.¹⁰³ Such a call was later endorsed and positively answered by the IRCS Chairperson and also by the Chief Executive Officer of the ZBS. In 2000, for example, the chairperson of IRCS, as stated in the ZBS annual report, expressed the hope that the body could solve Muslims' problems in the state, especially that of poverty. Such an intention was also frequently reiterated in later annual reports.¹⁰⁴ Eventually, in the organization's magazine in 2004, the ZBS Chief Executive Officer clearly agreed that the fund had gradually become the government's main resource for eradicating poverty in the state.¹⁰⁵

Indeed, both sides showed great understanding that they were moving towards a common objective. Such a situation was easily arrived at in view of the fact, as earlier mentioned, that the head of the IRCS and many of its members were government officials.

ZBS from then on has been considered a main player in poverty eradication. In many instances the government has incorporated the body within its development and poverty alleviation projects in the state. In an advisory capacity, the ZBS over time contributed input to the government. Since early 2000, for instance, the body has been one of the government's main sources of data about the poor and needy in the state. This is because the ZBS, since corporatization, has computerized its data on zakat recipients and from time to time updated the information. Besides that, the ZBS is one of the bodies invited to contribute ideas at seminars on poverty eradication organized by the state government. In 2004, for example, the Selangor government organized a seminar to determine the mechanism that should be adopted by the state.

¹⁰² Sa'ad, "Penempatan Asnaf", 10

¹⁰³ "Kempen Pembayaran Zakat Gaji Peringkat Negeri Selangor", *Asnaf*, 2/99, 1.

¹⁰⁴ Pusat Zakat Selangor, *Laporan Tahunan 2000*, 8.

¹⁰⁵ Sa'ad, "Tahniah Pusat Zakat", 45.

The Director of the ZBS was invited and presented a paper on how the ZBS could contribute to solving such a problem.

As far as the implementation of projects is concerned, the ZBS has been in many cases included in government initiatives. In the project of providing houses for the poor, for example, the ZBS after corporatization has continued to collaborate with other agencies under the state government. In this project, the ZBS has become the main contributor to construction of the houses, with the government district office merely providing land. From only RM5000 as a one-off contribution in 1995, the ZBS now provides over RM20,000 for each house. By 2007, approximately 500 houses were built through this project.¹⁰⁶ Apart from that, the ZBS also, in 2005, contributed approximately RM30,000 for poverty eradication programs under State Development Planning Unit.¹⁰⁷

Besides the constant efforts of the ZBS, the government of Selangor has to a certain extent helped the organization to achieve a higher collection. In 2004, the state government introduced an automatic deduction from its staff's salaries.¹⁰⁸ However, those who were unwilling to participate were exempted.¹⁰⁹ In this case, we should first examine the motive behind such a scheme. The Selangor government's agreement to facilitating zakat payment by its staff, as clearly stipulated by the state secretary, was mainly to encourage its employees to help the poor and needy through zakat.¹¹⁰ But what is important here is that the state government's initiative was not merely meant to increase the collection of zakat, but to reach a "win-win situation" in which the ZBS might be motivated to give more support to the government.

From the above discussion, it can be inferred that poverty eradication is one of the ZBS's priorities. With clear guidelines and procedures for disbursement, it seems that in the early years of the 21st century the disbursement system has been in

¹⁰⁶ Normala Mohd Sa'ad and Ima Syuhada Ismail, "Pelbagai Perlindungan Untuk Asnaf", *Asnaf*, 3/2007, 12; Lembaga Zakat Selangor, *Laporan Pengurusan Zakat Selangor 2007*, 25.

¹⁰⁷ "Statistik", *Asnaf*, 1/2006, 15

¹⁰⁸ "Selangor Wajib Kakitangan sertai Potongan Gaji", *Asnaf*, 2/2004, 12; Pusat Zakat Selangor, *Laporan Pengurusan Zakat Selangor 2004* (Shah Alam: PZS, 2005) 34; Pusat Zakat Selangor, *Laporan Pengurusan Zakat Selangor 2005*, 32.

¹⁰⁹ As'Ari Hashim and Sahadan Ishak, "Pekeliling Kerajaan Wajib Tapi Bukan Paksaan", *Asnaf*, 3/2004, 3; Ima Syuhada Ismail, "Pekeliling Kerajaan Ada Pilihan", *Asnaf*, 3/2004, 4.

¹¹⁰ Ismail, "Pekeliling Kerajaan", 4.

a phase of significant improvement. It is evident that corporatization has led to advances not only in collection but also in disbursement.

The interest in poverty eradication has impelled the ZBS to venture further into an income generation program. This program is considered a means of permanently releasing the recipients from poverty through a combination of financial and non-financial aid. In offering such a comprehensive mechanism, the ZBS has also been cooperating with other government agencies.¹¹¹ Thus the government, over time, has incorporated zakat as one of its official instruments for achieving its objectives. From the broader perspective of development, such a measure by the ZBS might be seen as propulsion of zakat into a broader economic role, engendering the fund a financial source for state development.

6.4 Conclusion

In sum, the chapter has outlined the evolution of the zakat institution in Selangor from merely a religious institution to a development body in the state. Selangor is multiracial and is among the most developed states in Malaysia. In the Malaysian Federation, powers pertaining to development and poverty eradication have been mainly federal, with states playing a supporting role in implementation and monitoring. Such a separation of powers, however, did not prevent states, in this case Selangor, from helping its citizens to improve their living conditions, since the state has a clearer picture of conditions in its own territory. In this respect, the state, with its limited financial capacity, must look for any potential resources, including help from the religious fund.

Zakat in Selangor has been managed by the IRCS, an advisory council for the ruler regarding religious administration in the state, since its establishment in the 1950s. As its bureaucracy has mainly involved government officials, the religious fund under its administration, including zakat, could be a potential resource for the state government. However, the administration of the fund at the beginning of its formation was unsystematic, resulting in a small collection. During this period, the

¹¹¹ Pusat Zakat Selangor, *Laporan Pengurusan Zakat Selangor 2004*, 6.

IRCS merely made it easier for Muslims to observe their obligation, without using the collected fund effectively for development.

Islamization in Selangor has to a degree reflected what had been happening in Malaysia as a whole. The Islamization of society in the 1970s and 1980s through the proliferation of religious movements encouraged Muslims to fulfil their zakat duty. This phenomenon in turn induced the IRCS to find, mainly through seminars and discussions, ways to improve zakat management. The improvement, however, was not substantial enough to bring about a significant increase in collection during the period in question.

Finally, in the mid-1990s, the IRCS adopted the corporatization model, an Islamization measure earlier introduced by the zakat body in Federal Territory. In this case, the corporatization was not limited to fund collection but also, a few years later, involved disbursement. Corporatization proved to be an effective mechanism for appealing to payers to pay their zakat. Aware that merely relying on the zakat laws was no longer effective, the IRCS turned to the propagation approach of appealing to Muslims, with a focus on the richer urban community. The acceptance of this appeal and the constant increase in collection can be understood as reflecting both growing awareness among Muslims and their confidence that the IRCS had gradually improved.

After corporatization, the new management body (the ZBS), while having more resources to disburse, also faced the new challenge of sustaining the fund's increment. Recognizing this situation, the ZBS, on the understanding that Muslims would contribute more once they saw the benefits accruing from the payment, improved the distribution system to place more emphasis on poverty eradication and income generation programs.

Through various activities and considerable amounts of disbursement for the poor, the state government has shown its interest in incorporating the institution as part of the state mechanism for eradicating poverty. By encouraging its staff to contribute, the state has also shown its commitment to helping the organization increase its collection. It seems that the corporatization has brought about a new

dimension in zakat management in the state of Selangor. The process of continuous advancement is still going on and seems unlikely to cease, at least in the near future.

CHAPTER 7

ANALYSIS ON IMPLEMENTATION OF INCOME GENERATION THROUGH ZAKAT IN SELANGOR AND ITS IMPACT

7.1 Introduction

The Islamization phenomenon has enhanced the function of zakat institution and the government has gradually embraced the institution as a source of poverty eradication. In this aspect, income generation is among the poverty eradication mechanisms commonly recommended by religious scholars and academicians in their writings and also supported by Muslims in general. With the increased collection, the ZBS, encouraged by both society and government, has gradually directed its energy towards provision of such a program.

This chapter thus aims to discuss and analyse the implementation of the income generation program, manifesting the Islamization phenomenon in the state. In this case, the ZBS has introduced many income generation programs, incorporating financial as well as non-financial aid to empower the poor recipients. Through the analysis carried out in this chapter, together with a complete picture of how income generation is being implemented in Selangor, it is hoped that objective four will be fully achieved.

The chapter is divided into five main sections. The first discusses the factor contributing to the implementation of income generation. From the early 1980s, when the Islamization phenomenon began to be noticed, society issued exhortations and suggestions that zakat be used for income generation. It later emerged that the government encouraged a similar approach to disbursement, having seen that the collected fund could play a significant role in development. Its endorsement in turn led the ZBS to make a commitment to realization of the program.

In the second section, we shall observe the wide range of programs offered by the ZBS. They fall into three categories: financial assistance, advisory aid and support services, together providing a clear picture of how the initiatives are carried out. In offering the program, the ZBS has steadily shifted its role from that of simple

disbursal agent to that of active supervisor. This practice changed the way the zakat fund was spent even after it reached the hands of recipients.

In the third section, another important element of the implementation of income generation, namely the changes in religious rulings, is discussed. Zakat, as a religious fund, must not be disbursed haphazardly without consent from the *Mufti*, the highest authority in the state. From the discussion we can see the close cooperation between the ZBS and the *Mufti* whereby, in accommodating the changes in zakat distribution practice, new rulings were introduced. It is clear from the examination that *ijtihad*, the process by which new rulings are derived, especially with reference to the disbursal for income generation, has been influenced by the current economic and social needs of the community.

In the forth section, the impact of the implementation of income generation through zakat is discussed. The impact can be observed from material and non-material perspectives. Materially, the initiative can certainly help the recipients, as established later in the section, on the basis of several accounts. From the non-material point of view, the impact can be seen in the structural change of zakat practice and organization in the state. In addition, the legal aspect of zakat has altered considerably in accordance with current needs and circumstances. As pertaining to the legal aspect, we also devote a small section (the final one) which surveys whether the development in Selangor has spread to other states and the extent to which rationalism and public interest (*Maslaha*) could be probably embraced by legal authority in determining any new decision about zakat in the near future.

In all, the distribution of the fund for income generation is a new practice which differs in many ways from the traditional disbursement. The practice has generated many issues which the ZBS, as implementer, must be aware of in order to come up with satisfactory solutions within the acceptable boundaries of its power and of religion.

7.2 Continuous Islamization Forces for Income Generation through Zakat in Selangor

As mentioned earlier, the ZBS has for some time been keen to improve its disbursement system, giving special attention to poverty eradication. In doing so, the ZBS generally classifies distribution into two broad areas: consumption and income generation.¹ Consumption is disbursement to satisfy basic needs which, according to the ZBS standard, includes shelter, food, medical help, clothing, education and transportation.² The expenditure for consumption only fulfils the immediate needs of recipients and for a certain interval; hence the aid needs to be repeated. Accordingly, to enable the recipients to be permanently relieved of poverty, the ZBS offers income generation aid, known as capital disbursement which involves the distribution of capital for productive recipients, based on their respective expertise and existing vocations.³

The government and IRCS, since 1980s, have also tried to enhance the zakat administration. From then on, the idea of income generation is clearly reflected in many academic discussions in seminars and publications pertaining to zakat. The exhortations and academic discussions on the matter will be further elaborated below.

Apart from that, the ZBS also needs to improve its distribution system in order to show that it can manage the fund effectively. The good image of the zakat institution in the eyes of Muslims in regard to effective fund management could potentially attract more payment. Thus, the income generation initiative should be introduced as a strategic measure in the interests of more effective distribution.

Greater concern and desire to show zakat as more functional in society is indeed a manifestation of Islamization. On the societal level, it reflects the proliferation of discussion on zakat, including the proposal of income generation. This however could not materialize without a positive reaction from government. The following subsection hence tries to shed light on these matters, with particular reference to the State of Selangor.

¹ Pusat Zakat Selangor, "Catatan Ringkas", 21; "Sistem Agihan Zakat Diberi Nafas Baru", 10.

² Zool Fadli Mohd Nor, "Memahami Haddul Kifayah", *Asnaf*, 1/2010, 29.

³ Pusat Zakat Selangor, "Catatan Ringkas", 21.

7.2.1 Forces from society for a more systematic disbursement

Looking back at the stage development of zakat in Malaysia in general, there were many national seminars and discussions pertaining to zakat have been organized since 1980s. During this time, the Islamic Religious Council of Selangor and the ZBS have, over time, act similarly. Through these seminars, similar to that of happened in national level, the exhortation for zakat to be distributed as income generation projects was frequently heard. In 1988, for example, Ahmad Ibrahim, a renowned professor in law, stressed the need to use zakat to liberate Muslims from being trapped in poverty. According to him, the fund should be disbursed in such a way as to “*memulihkan*” – rehabilitate them. For this purpose, the fund should provide supportive mechanisms for the rightful recipients through their respective vocations, thus helping them to be permanently free from poverty.⁴

Another important seminar was organized in 1997, a few years after zakat in the state was corporatized.⁵ There are several papers in this seminar merit discussion, as they proposed a direction in which ZBS in particular should be heading.

Nik Mustafa Nik Hassan⁶ and Hailani Muji Tahir⁷ were among the presenters in the seminar who touched on the possibility of adopting distribution for income generation in Selangor. Hassan in his paper plainly stipulated that zakat should be an important tool in state economic policy for poverty eradication and economic justice. Poor people should be given greater opportunities for embarking upon any economic activities that could give them a better quality of life. He suggested the distribution system should also be improved in such a manner as to enable the disbursed fund to be utilized optimally by the recipient. The zakat institution in this respect should acquire the latest knowledge concerning fund management to produce a dynamic

⁴ Ahmad Ibrahim, “Pelaksanaan Kutipan Zakat Hambatan –Hambatan dan Cara Mengatasinya”, Paper presented in Seminar Zakat Negeri Selangor Darul Ehsan, 17 December 1988, Shah Alam, 5.

⁵ The seminar entitled Persidangan Pemantapan Institusi Zakat was organized by Selangor Zakat Center with collaboration with Selangor state government.

⁶ Nik Mustafa Nik Hassan has been an active researcher on zakat and currently one of ZBS Distribution Committee members. See Lembaga Zakat Selangor, *Laporan Pengurusan Zakat Selangor 2009*, 18.

⁷ Hailani Muji Tahir is an Associate Professor in Faculty of Islamic Studies, National University of Malaysia and currently one of ZBS members of trustee. For his personal biography refer: Lembaga Zakat Selangor, *Laporan Pengurusan Zakat Selangor 2009*, 7.

system of expenditure.⁸ From the broader context of his discussion, it could be clearly understood that he wanted the zakat to be dispersed in a productive way, although he did not specifically say so.

Slightly different from Hassan, Tahir in speaking of defining rightful recipients according to current needs in Malaysia (which his paper was mainly related to), broadly discussed zakat with reference to three major themes, namely, legal opinions of classical scholars pertaining to distribution issues, practical issues related to ZBS (at that time the Selangor Zakat Centre) and finally, the level of effectiveness that zakat disbursement should achieve. Through his analysis, he however similarly expressed the opinion that the disbursement should reflect greater concern with effectiveness. Accordingly, he recommended that zakat be spent on helping the poor to acquire capital for their economic activities.⁹

Examining the essence of the writers discussion, it is interesting to note that the corporatized zakat institution, as described, should employ a more comprehensive management of fund. We can see that they have also all encouraged the use of zakat for developing the recipients, so that the poor could not only become independent but could also once more contribute to society. Hassan, considering the issue from an economist's point of view, suggested that the recipients should be empowered so as ultimately to become positive contributors to the economy (*penyumbang yang positif kepada ekonomi*).¹⁰ And Tahir, for his part, applying the *fiqh* perspective to the question of the fund's disbursal, argued that it should be suited to the current needs and interests of society, rather than conforming indefinitely to classical opinions.¹¹

The 1997 seminar on zakat, besides presenting theoretical discussions from legal and economic perspectives, offered another interesting aspect through a presentation by the chief executive officer of Amanah Ikhtiar Malaysia (AIM), a well-established NGO which actively provides income generation for poverty

⁸ Nik Mustafa Nik Hassan, "Justifikasi Dalam Pengkorporatan Institusi Zakat", Paper presented in Persidangan Pemantapan Institusi Zakat, Shah Alam, June 19, 1997, 3.

⁹ Tahir, "Penafsiran Golongan Asnaf" 8, 11.

¹⁰ Hassan, "Justifikasi Dalam Pengkorporatan", 2.

¹¹ Tahir, "Penafsiran Golongan Asnaf" 10.

eradication.¹² The AIM is a body established in 1980s backed by grant provided by federal and state governments to give loans for the poor through income generation projects. So far, the body has achieved a significant successful rate among its members (between 55% to 98% based on several studies).¹³

In this seminar, the officer suggested that a similar mechanism could be practised by the Selangor Zakat Centre, and also recommended that zakat and AIM should collaborate so that the fund could be administered by the same mechanism.¹⁴ Although he realized that this was not something that could easily be implemented, inasmuch as zakat could not be disbursed in the form of loans, he personally was still optimistic that the ZBS might be willing to change the system. As another practical alternative, he then proposed that the fund could be invested in AIM, as a result of which option the ZBS would become one of the owners of AIM.¹⁵

The presence of a high official of AIM at the seminar is an interesting fact to ponder upon. As AIM is the best-known income generation program in the country, with a good track record, it can be understood that, where zakat is concerned, there must be something to be learned from AIM. That is perhaps why the ZBS invited a presenter from AIM to share his ideas. Since the other presenters, as mentioned above, also suggested that zakat should be used for income generation initiatives, it is not impossible that they learnt about the workability of the practice for poverty eradication in the country from the existence of AIM, which has been in operation since the mid 1980s. Realizing that the collected fund had begun to expand following corporatization, the ZBS and people in general found it easier to think creatively about how to use the zakat effectively and efficiently, through looking at the living example present in their surroundings.

¹² For more information about AIM refer: Chamhuri Siwar et.al, "Kajian Impak Enonomi Sosial Skim Pinjaman (SPI) Amanah Ikhtiar Malaysia", Bangi, Universiti Kebangsaan Malaysia, 2000. 2.1-2.10.

¹³ For brief survey of researches pertaining to AIM please refer: Abdullah Al- Mamun, "Empirical Investigation on the Effect of Microfinance Program of Amanah Ikhtiar Malaysia on Quality of Life in Urban Peninsular Malaysia", *European Journal of Economics, Finance And Administrative Sciences*, (39) (2011): 104.

¹⁴ Mukhtar Ramli, "Keberkesanan Program Agihan Zakat Dalam Pembasmian Kemiskinan", Paper presented in Persidangan Pemantapan Institusi Zakat, Shah Alam, June 19, 1997, 7.

¹⁵ Ramli, "Keberkesanan Program", 6.

Following the 1997 seminar, another workshop organized by the ZBS in 1999, right after the centre was responsible for fund distribution, also merits examination. This workshop featured a number of local religious scholars who were consulted with regard to revising the distribution mechanism, a proposal which was later presented to the *Mufti* for consideration.¹⁶

Poverty eradication was among the subjects given considerable attention. As the main principle of distribution, the workshop concluded that distribution to the poor and needy must have the highest priority.¹⁷ In keeping with the suggestion of the previous seminar, poverty eradication through income generation were brought into sharp focus in the discussion. The workshop's panels suggested that disbursement for the poor and needy should be placed into two broad categories, namely, *istihlāki* (consumption) and *istithmārī* (capital). Although they generally agreed that the consumption disbursement should continue as it was, capital disbursement must concomitantly be given greater attention. As a matter of principle, the disbursed fund must at first fulfil immediate needs such as food, shelter and clothing. Those who were able-bodied and entitled to receive capital distribution should be given adequate help as appropriate to their profession and expertise.¹⁸ To ensure that the aided poor could effectively utilize the fund and could ultimately succeed in their chosen income-generation activities, monitoring and training should be provided.¹⁹ From what has been discussed and proposed, it is evident to us that the seminars and workshop to a certain extent shed light on the direction in which the ZBS should steer. All of these seminars were organized in Selangor and by the IRCS. As the organizer and advice seeker, the IRCS need to carefully listen to their exhortation. It is not unsurprising that the IRCS was influenced by these seminars.

For the forces to become more influential, it is interesting to note that some of the presenters of the ideas have been absorbed in the management of IRCS and ZBS. Tahir for example has been a member of IRCS and also a trustee for the ZBS since

¹⁶ Pusat Zakat Selangor, "Catatan Ringkas", 1; "Sistem Agihan Zakat Diberi Nafas Baru", 10.

¹⁷ Pusat Zakat Selangor, "Catatan Ringkas", 4; Pusat Zakat Selangor, "Kertas Cadangan Mengemaskini Sistem Agihan Zakat Negeri Selangor", Proposal presented in Selangor Fatwa Committee meeting, July 18, 2000.

¹⁸ Pusat Zakat Selangor, "Catatan Ringkas", 21.

¹⁹ Pusat Zakat Selangor, "Catatan Ringkas", 37.

early 2000s. Hassan has also been one the ZBS advisors for the disbursement section since mid of 2000s.

Academic discussion of the practice in Selangor has obviously not stopped at this point. In many later seminars and publications, the Selangor disbursement system has again been referred to. The focus of the discussion, however, has been rather different as compared to that of the 1990s, as many contributors talk about the program's practical implementation and its achievements, and offer suggestions as to how it should be enhanced. Some of these writings will be referred to in the coming sections.

The demand from society came not merely from academicians and religious scholars participating in seminars and workshops. There is evidence that Muslim society in general shared a similar view. The two studies outlined below indicated that in order to increase collection the zakat organization needed to improve its disbursement practice favourably through income generation. Although the studies came later, it could show general view of society and reassure that the effort has been taken earlier by the ZBS could be continued without doubt.

Hairunnizam Wahid and Sanep Ahmad, in their survey in 2005, clearly showed the extent to which the disbursement system could affect the willingness of society to pay zakat through a formal zakat institution (like ZBS). The survey involved a sample of 2588 payers, 672 of whom resided in Selangor.²⁰ Asked how they perceived the disbursement system of the ZBS, 66% of the respondents considered that disbursement was still not fully satisfied with the implementation. Statistical analysis by the researchers proved that there is a strong relation between the payment of zakat and personal perception of the fund's distribution, which clearly found that the zakat institution must improve its disbursement system so as to induce more potential payers to contribute more.²¹ If the ZBS could convince people to do so by means of a better distribution system and improve the perception among the potential payers, the higher amount of collection might be achieved.

²⁰ Sanep Ahmad and Hairunnizam Wahid, "Persepsi Agihan Zakat dan Kesannya Terhadap Pembayaran Zakat Melalui Institusi Formal", *Jurnal Ekonomi Malaysia*, (35) (2005): 59, 64.

²¹ Ahmad and Wahid, "Persepsi Agihan", 64-67.

In order to clarify the reasons behind such a situation, an extensive study was carried out in 2009. Wahid *et.al* in their second survey selected 700 respondents throughout Malaysia, including 190 residing in Selangor.²² The study found that the respondents were less than satisfied for a number of reasons, namely, insufficient disbursed funds, unsystematic distribution systems and limited publication. A majority of the respondents agreed with the suggestion that poverty eradication should be given priority over other recipients. Asked about the type of disbursement, especially for able-bodied recipients, 38.2% of respondents in Selangor preferred to give capital accompanied by training and monitoring services. The rest, respectively 24.1% and 28%, preferred disbursement for either capital or training. In all, a majority of the respondents plainly showed their preference for productive rather than consumptive disbursement for the betterment of the recipients.²³ This study shed a light on how disbursement should be handled in order to persuade existing and prospective payers to contribute. In sum, the enhancement of the disbursement system through income generation is something that society wants rather than a product of theoretical imagination.

7.2.2 Government's positive reaction and support

The introduction of the new disbursement mechanism has been indeed supported not only by society but also by the state government. In this aspect, both the Ruler and Chief Minister have repeatedly asked, at a personal level, for more active involvement of zakat in poverty eradication. They have voiced support on many occasions and at a ceremony connected with zakat collection and distribution. The Chief Minister has often said in his speeches and interviews that the ZBS should be more proactive in disbursement, which would enable it to play an important role in developing Muslims economy especially through poverty eradication.²⁴

A similar exhortation has also come from the *sultan*, the highest authority in religion in the state. The *sultan* has been one who often appeared in ceremonies

²² Hairunnizam Wahid *et.al* , "Pengagihan Zakat oleh Institusi Zakat di Malaysia: Mengapa Masyarakat Islam Tidak Berpuas Hati" *Jurnal Syariah*, (17)(1) (2009): 99.

²³ Wahid *et.al*, "Pengagihan Zakat" 104.

²⁴ "Zakat Bantu Tingkatkan Ekonomi Masyarakat", *Harian Metro*, April 16, 2004; "LZS Sumbang Peningkatan Kecekapan Ke Tahap Cemerlang, Gemilang Dan Terbilang", *Asnaf*, 1/2006,12; "MB Selangor Puji Kecekapan Agihan Zakat", *Asnaf*, 4/2001, 12.

involving ZBS such as official functions for fund collection or disbursement. He also has made visits to zakat recipients' projects under income generation initiatives.²⁵ Such an act by the ruler indeed could be considered a blessing on what have been implemented. Such a blessing has been overtly reconfirmed lately. In his official speech at the new ZBS building's opening ceremony in early 2011 for example, he clearly stipulated that zakat should be further employed to eradicate poverty. In addition, according to him, the ZBS must direct attention towards long-term empowerment initiatives, rather than merely giving short-term aid to recipients.²⁶ Coming from the highest personage, such a personal view was something that the ZBS could not take lightly.

Perhaps aware of the exhortation from highest persons in the state government and also from society, the Chief Executive Officer of ZBS in 2004 clearly demonstrating the commitment of the organization to implementing such an initiative said that the economic development of recipients is the best means of poverty eradication. He stated:

“The best method to eradicate poverty among recipients is to increase their economy. Therefore, under the Economic Development Programme that is organized by ZBS, the poor and needy who are proactive and possess a business skill are given initial capital to start.”
(translation)²⁷

The remark could be understood as resulting from a perception that zakat disbursal through income generation is better than ordinary distribution for consumption. It could be also understood as the acceptance of the exhortation.

The state government also most of the time gave indirect support to ZBS, including, as previously stated, help provided by the former through direct deduction from the monthly salary of state officials. On the other hand, the role of latter has become increasingly important, to the extent that the body, where it comes to poverty, is the institution most frequently referred to. On top of that, a recent development has indicated that the ZBS currently holds the most complete database

²⁵ “DYMM Pemangku Raja Selangor Bersama Rakyat Fakir dan Miskin di Sepang”, *Asnaf*, 4/99, 1; Pusat Zakat Selangor, *Laporan Zakat 2004* (Shah Alam: PZS, 2005), 54; “Lensa Prihatin”, *Asnaf*, 1/2006, 17.

²⁶ “Titah Sultan Selangor”, *Asnaf*, 1/2011, 20.

²⁷ Pusat Zakat Selangor, *Laporan Zakat 2004*, 43; “PZS Memikul Amanah Membangun Ekonomi Ummah”, *Berita Harian*, March 8, 2005.

of poverty in the state.²⁸ Although this, to a certain extent, puts tremendous pressure on the ZBS, it clearly indicates that the government sees its potential for playing a greater role in state development. It also undeniably provides an inducement for the ZBS to improve its practice and to develop better means of disbursal.

From the above discussion, it is clear that the decision to disburse the fund through income generation initiative has been influenced by society and government. The suggestions for the disbursement have been voiced through seminars and workshops. The embracement of some of those who made suggestion has also strengthened the force for the ZBS to implement such a distribution. On the other hand, government also did similarly as they see a potential of helping them eradicating poverty in the state

In all, it can be seen as a gradual acceptance of the greater role of zakat in solving social and economic problems, which reflects concurrently a clear pattern of greater Islamization from both sides. Ultimately, confidence in zakat has been increasing in the belief that it can contribute more effectively to the nation's economic development.

The coming subsection will discuss structural changes in the way income generation through the zakat initiative has been put into practice in the real world. It will also show how the initiative has been accompanied by change in the *fatwa* and in legal aspects, a phenomenon which is undeniably important as illustrating how the overall religious practice is shifting.

7.3 Implementation of Income Generation: Complementing State Policy

As outlined in the earlier chapter, the income generation initiative consists of giving the eligible productive recipients financial and also non-financial support. As far as the ZBS distribution mechanism is concerned, the program has evolved through time, from merely giving money to enable poor recipients to improve their

²⁸ Ahmad Shahir Makhtar *et.al* , "Pengurusan Zakat di Negeri Selangor: Isu dan Cabaran", Paper presented in Konvensyen Kebangsaan Perancangan dan Pengurusan Harta Dalam Islam, Bangi, July 14, 2010, 25; Pejabat Setiausaha Kerajaan Negeri Selangor, *Laporan Retreat 2007*, (Shah Alam: UPEN, 2007), 317; Interview with Abdul Samad Ibrahim, Head of Asnaf Development Department, ZBS, Klang, May 14, 2010.

income through their existing profession, to a more complex and non-financial strategy. This evolution illustrates the gradually expanding role of zakat in accordance with the current needs of Muslims.

The effort by the ZBS to provide income generation aid to recipients has been mainly based on the belief that the poor are disadvantaged in that, although they are productive, they are unable to increase their personal income. Hence, they could be clinging to zakat aid all their lives if no concrete step is taken to improve their situation.²⁹ From the experience and observation of the ZBS, among impediments to progress are insufficient capital, insufficient business knowledge including financial management and marketing, lack of supervision and lower level of determination to succeed and of good personal values.³⁰ Responding to the above situation and recipients' problems, the ZBS has outlined several initiatives including material and non-material contributions.

Discussion of such an initiative can be divided into two broad categories, namely, personal capital distribution and collective projects. In the first category, all three elements (financial, training and support services) of income generation aid will be briefly discussed. For the personal disbursement category, the three elements are offered separately and may or may not be offered to every recipient. However, this is not the case for the group projects, which are more comprehensive in nature, and in which all these elements are offered and must be strictly followed by each participant.

From a broader perspective, the process of implementation of each program was actually in reaction to external forces, especially the government. In this respect, the programs could perhaps be portrayed as complementary to what the government had done. The pattern will be reflected in the discussion which follows.

7.3.1 Personal capital disbursement

1. Financial assistance

²⁹ Balwi *et.al*, *Pewujudan Usahawan Asnaf*, 137; Normala Mohd Sa'ad and Ima Syuhada Ismail, "Program Pembangunan Ekonomi LZS (MAIS)", *Asnaf*, 1/2007, 9; Aktar Sahari, "Program Keusahawanan Cerahkan Masa Depan Asnaf", *Asnaf*, 1/2007, 6.

³⁰ The determined factors are based on the observation and experience of ZBS. Makhtar *et.al*, "Pengurusan Zakat", 11; Hailani Muji Tahir, "Konsep Agihan Zakat dan Aplikasi Semasa", *Jurnal Pengurusan Jawhar*, (1) (3) (2009): 46.

Financial assistance for zakat recipients is the basic and most common method of disbursement for income generation. Its initial approval for such an introduction first appeared in state *fatwa* published in August 1994. In the section devoted to the poor (*miskin*) and needy (*faqir*), the income generation distribution was stipulated briefly as among the means of disbursement. In this aspect, they can be monetary capital, acquisition of facilities such as movable stalls, and intangible assets such as business studies and skills.³¹ It is evident that the stipulation in the *fatwa* was just a preliminary permission which might be implemented later by the ZBS. The distribution was not put into operation straightway at that time, as the disbursement record in 1994 did not yet show any amount devoted to it.³²

The evidence that the ZBS had begun to offer income generation could only be clearly observed a few years later. In 1999, for example, the ZBS devoted a few columns in its zakat magazine (*Asnaf*) to relating some experiences of a number of poor recipients who had secured such a disbursement.³³ From the reporting and accounting point of view, however, this was treated in the same way as other disbursements. There was also, by then, no special monitoring systems for those who received the fund.³⁴

Although a systematic procedure had not yet emerged by the end of the 1990s, when the twenty-first century was ushered in, the new distribution system under the ZBS reflected greater interest in disbursement. It is worth recalling that the ZBS was newly given the role of disbursement in 1998. Such a fresh mandate could be regarded as a substantial sign of recognition by the IRCS and the government in general. It is not surprising that the ZBS during this time had increased its effort to demonstrate its ability and thus to prove that it was better than the previous management. In an interview, the then CEO of the ZBS pledged his commitment to raising the system to a standard that would enable zakat to solve societal problems.³⁵

³¹ Mufti Negeri Selangor, *Fatwa Warta Kerajaan Negeri Selangor Darul Ehsan 1991 Hingga 1997* (Shah Alam: Pejabat Mufti Negeri Selangor), 15.

³² Marsidi, "Zakat dan Peranannya", Appendix 18.

³³ "Dimana Ada Kemahuan", *Asnaf*, 1/1999, 10; "Cuci Kereta Sara Keluarga", *Asnaf*, 2/1999, 10.

³⁴ "Statistik Agihan Zakat", *Asnaf* 1/2000, 6; Pusat Zakat Selangor, *Laporan Tahunan 2000*, 14.

³⁵ "PZS Menempa Sejarah Zakat", *Asnaf*, 1/2000, 8.

It was then also that, for the first time, the ZBS identified poverty eradication as one of the visions it hoped to realize.³⁶

As discussed in the previous section, as part of its measure to improve the overall distribution system, the ZBS in 1999 had consulted local religious scholars. As a positive result of the consultation, the disbursement for income generation has been gradually stressed as not being restricted to financial aid but as also encompassing several non-financial activities.³⁷

The ZBS has been processing financial assistance according to previous practice. The capital aid encompasses four main economic activities namely, business, agricultural, fisheries and livestock rearing.³⁸ The programs are designed as such according to the main economic sectors of the state, which are relevant to many of the poor recipients.³⁹ For a prospective recipient to qualify for aid, he/she must first make an application and be selected and confirmed by the ZBS as poor and entitled to zakat funds. Besides offering the aid to selected new recipients, the ZBS, as a common practice, offers it to those who have received zakat before.⁴⁰

Financially, since 2000, a successful applicant can receive up to RM5000 at first, in the form of cash or other equipment, with the opportunity to obtain additional funds if the business or project is a success.⁴¹ The amount of the disbursement, however, varies according to assessment of the activity's actual start-up needs and its potential for profit. The disbursement for income generation is on a one-off basis. It is interesting to note that, as the ZBS has not set a certain maximum amount for each recipient. In this aspect, it is possible for a recipient to have received additional aid

³⁶ Pusat Zakat Selangor, *Laporan Tahunan 2000*, 4.

³⁷ "Sistem Agihan Zakat Diberi Nafas Baru", 10.

³⁸ Mufti Negeri Selangor, *Fatwa Pengurusan Agihan Zakat Selangor*, 11; Tahir, "Konsep Agihan", 47-48; Balwi *et.al*, *Pewujudan Usahawan Asnaf*, 141.

³⁹ Interview with Abdul Samad Ibrahim, Head of Asnaf Development Department, ZBS, Klang, May 14, 2010; "Mengatasi Barah yang Semakin Parah", *Asnaf*, 4/2001, 3.

⁴⁰ Noormala Mohd Sa'ad and Sahadan Ishak, "Pembelaan Mualaf Peranan Zakat vs Masyarakat" *Asnaf*, 3/2005, 6; Ima Syuhada Ismail and Sahadan Ishak, "Pelihara Aqidah Mualaf Antara Peranan dan Tanggungjawab", *Asnaf*, 3/2005, 10.

⁴¹ Makhtar *et.al*, "Pengurusan Zakat", 12; Tahir, "Konsep Agihan", 47; Balwi *et.al*, *Pewujudan Usahawan Asnaf*, 141; Sity Fatimah Azzuhara Sidek, "Usahawan Asnaf Zakat, Bukan Sekadar Terima Bantuan" *Asnaf*, 1/2007, 10.

such as an annual disbursement or education allowance for children.⁴² This is to ensure that the fund disbursed will not be directed towards consumption, which would jeopardize the main objective of the disbursement.

As to the amounts of financial aid disbursed through income generation programs across the four sectors listed above, ZBS reports from 2002 to 2009 indicated as follows:

Table 7.1: Disbursement for income generation programs (2002-2009)

(Personal recipients)

Year	2002	2003	2004	2005	2006	2007	2008	2009
Programs	RM	RM	RM	RM	RM	RM	RM	RM
Business	181281	378550	607466	663437	921570	921372	1641423	2021484
Agricultural	5380	5845	8500	19550	34200	53298	52066	76922
Fisheries	6000		74100	102300	251800	140238	61663	176892
Livestock	7800	8500	19994	6400	13000	598922	51601	318192
Total	200461	392895	710060	791687	1189790	1713830	1806753	2593490

Sources: ZBS, *Annual Reports*, various issues ; *Asnaf*, various issues.

As clearly shown in the above table, capital aid devoted to business activities has exceeded other types of distribution. The rationalization underlying this pattern can be understood from a statement of 2004 by the Chief Executive Officer (CEO) of the ZBS, to the effect that the poor are mainly landless.⁴³ It was clear that one could not find opportunities in the agricultural and fishing sectors if one had nowhere to live.

Apart from that, extensive disbursement for business could be associated with the rise of urbanization in Selangor. In recognition of this factor, the ZBS focused on business assistance, an initiative better suited to the urban poor whose numbers, the ZBS realized, were increasing over time. Hence, according to the CEO, the ZBS encouraged the poor in cities like Klang and Petaling Jaya to apply for aid with which to pursue business opportunities in the many sectors such as retail, food and

⁴² Balwi *et.al*, *Pewujudan Usahawan Asnaf*, 141; Interview with Abdul Samad Ibrahim, Head of Asnaf Development Department, ZBS, Klang, May 14, 2010; Ibrahim, "Economic Role of Zakat", 6.25.

⁴³ "Kemiskinan di Bandar Kian Meruncing: PZS", *Berita Harian*, March 26, 2004.

services which operated in these locations.⁴⁴ The inclinations of the ZBS could also be indirectly related to encouragement from the government, as will be discussed in a later part of this section.

In general, the focus of the ZBS up to 2003 was only on financial assistance. Although the ZBS prior to that would briefly mention in its reports that it also provided some training for the recipients of financial aid, the body did not explain specifically how this initiative was carried out. Thus, it is perhaps safe to suggest that training and other forms of advisory aid had yet to receive significant attention from the ZBS.

2. Advisory/Monitoring Services

There were many things happened in 2004 could accelerate the development of ZBS in general and income generation in particular. Federal government, at that time has established Department of Zakat, Waqf and Hajj. In this aspect, Chairman Board of Directors of ZBS stated that such an effort shows a strong government political will to put zakat as one of complementary element in national fiscal policy (*elemen sokongan dasar fiskal*). He accordingly urged that ZBS must increase its efficiency, not only in fund collection but also disbursement.⁴⁵

In the state level, Selangor has set up a committee, under State Economic Planning Unit, chaired by Chief Minister specifically deal with poverty eradication in the state. The committee has incorporated many agencies which related directly or indirectly to the poverty alleviation such as Welfare Department, Local Councils, Amanah Ikhtiar Malaysia, Poverty Eradication Foundation and ZBS. The establishment of the committee is to organize and coordinate the activities of the incorporated agencies to reduce redundancy and improve their effectiveness in fighting poverty.⁴⁶

The committee, in the middle of 2004, has organized a seminar giving the opportunity for the CEO of ZBS to deliver his paper. In the presentation, he

⁴⁴ “Mengatasi Barah Yang Semakin Parah”, 3; “Kemiskinan di Bandar Kian Meruncing: PZS”.

⁴⁵ Pusat Zakat Selangor, *Laporan Tahunan 2004*, 7

⁴⁶ Interview with Abdul Samad Ibrahim, Head of Asnaf Development Department, ZBS, Klang, May 14, 2010; Pusat Zakat Selangor, “Laporan Seminar Pembasmian Kemiskinan Bandar dan Luar Bandar”, 4.

introduced an “integrated approach to poverty eradication” which he named as JIWA- an abbreviation from elements or traits of *Jatidiri* (Personal Identity), *Ilmu* (knowledge), *Wawasan* (vision) and *Aqidah* (Belief). According to him, zakat recipients must be instilled with the above four elements in order to free themselves from the poverty cycle. Hence, the distributed fund must be supplemented with a program or training to provide of a wide range of knowledge and skills that are necessary to enable them to flourish and eventually stand on their own feet.⁴⁷

The inclusion of the ZBS under the committee could be seen as recognition of the body as part of the poverty eradication effort. Although the committee is merely advisory and the ZBS is only part of it, its inclusion provided a psychological incentive for the body to be more active in channelling its measures for poverty eradication. The subsequent change in the ZBS might support this argument.

Following the formation of the committee, the ZBS appears to have made some improvements in its activities, especially in relation to income generation. In fact, in its annual report in the same year, it identified income generation as the best disbursement approach, which from now on should be given serious attention by the body.

Complementing the capital distribution which had been introduced earlier, non- financial aid through courses and advisory services since then has been multiplied. For example, the ZBS from then offered a short course for women recipients who participated in several income-generation activities such as crafts production and tailoring. The courses were offered in order to equip them with necessary skills suitable for their main role as homemakers.⁴⁸ Unlike previous years, in 2004, there were 4 types of courses related to income generation have been organised involving more than 300 recipients.⁴⁹

In the same year, Zakat Recipient Development Department (*Jabatan Pembangunan Asnaf*), a new unit specializing in administering training and advisory

⁴⁷ Mohd Safri Mahat, “Formula JIWA Basmi Kemiskinan”, *Asnaf*, 1/2004, 12-13.

⁴⁸ Pusat Zakat Selangor, *Laporan Tahunan 2002* (Shah Alam: PZS, 2003), 37.

⁴⁹ Pusat Zakat Selangor, *Laporan Tahunan 2002*, 47.

programs has also been established.⁵⁰ Under this new unit, the ZBS since 2005, has been providing more courses and training schemes, including:

- a. Preliminary and general courses: courses designed to motivate and encourage recipients to work and strive harder. Basically the courses try to recognize the personal potential in each individual recipient. Among the courses frequently held in this category are named as *Suq al- Ukaz* and *Suq al-Majinah*, which are taken from names of markets in Medina during Prophet Muhammad era.⁵¹

These two courses are offered for those who are interested in applying income generation distribution. The participants will be exposed to the potential of income generation initiatives, particularly in business activities. In view of the fact that they are still productive, the courses will motivate participants, whatever their current profession, to do their utmost to succeed.⁵²

Apart from introducing new skills, the courses also try to instil a positive view of income generation as a religious obligation. Through these courses, for example, the poor are educated as to the ultimate objective of zakat, which must not be perceived as a source of income.⁵³ Despite receiving zakat fund, they are also expected to raise their economic condition to the level at which they in turn could contribute to the zakat fund as zakat payers. In this context, consistent manoeuvring to achieve that objective is considered a religious duty (*ibāda*) which they as Muslims should accordingly observe.⁵⁴

All the courses are designed so as not only to introduce the poor to new skills but also to promote understanding of the new paradigm whereby income generation is incorporated into a broader religious perspective.

⁵⁰ Sahari, "Program Keusahawanan", 6.

⁵¹ Balwi *et.al*, *Pewujudan Usahawan Asnaf*, 146-148; Mohd Sabri Mat Nor, "Latihan: Wadah Asnaf Berdikari", *Asnaf*, 1/2008, 12-13.

⁵² Balwi *et.al*, *Pewujudan Usahawan Asnaf*, 146-148; Nor, "Latihan: Wadah Asnaf Berdikari", 12; See Module of *Suq al-Majinah* produced by ZBS.

⁵³ Nor, "Latihan: Wadah Asnaf Berdikari", 12; "Pengenalan Program" in Module of *Suq- al-Majinah*, 4;

⁵⁴ "Kuliah 2: Tingkah Laku Usahawan; Niat Kerana Allah dan Budi Pekerti Yang Luhur" in Module of *Suq al-Majinah*, 61.

- b. Technical courses: such courses will be offered according to the recipients' need and suitability. Among the courses frequently offered are basic accounting and bookkeeping, marketing, and other types of technical training meeting the specific individual needs of recipients, such as food catering, tailoring and crafts production.⁵⁵ The courses have normally been offered to those who already receive capital distribution. Usually offered between one and four times a year and involving approximately 20 recipients, each session is presented according to need and demand. The courses are provided as a strategy for improving recipients' working attitude while exposing them to new skills and knowledge.⁵⁶

Apart from courses, monitoring is another non-financial service within the income generation program. This service is pertinent as to measure the performance or achievement made by the fund recipient besides avoiding any tendency of misuse of the disbursed fund. Monitoring activities have been carried out through direct and indirect means. Directly it is conducted by district zakat officials who sometimes visit the recipients to determine their condition over time. As the number of officials is not enough to visit all the recipients, it is normal practice that the monitoring will take place during the recipients' attendance at courses.⁵⁷ Due to the limited number of officials and the fact that the monitoring task is rather costly, the ZBS has been for sometime trying to find a better way to conduct it. Significant results for this practice, however, have yet to be observed.⁵⁸

3. Support Services

In order to bring the recipients together so that they can share knowledge and experience, ZBS in 2004, has also introduced a club named Group of Zakat Recipients Entrepreneurs (*Kumpulan Usahawan Asnaf Zakat* or KUAZ).⁵⁹ The group is open to

⁵⁵ Tahir, "Konsep Agihan", 47, 50; Pusat Zakat Selangor, *Laporan Tahunan 2003* (Shah Alam: PZS), 47-48; "Bengkel Bantu Wanita Urus Wang", *Harian Metro*, May 14, 2004.

⁵⁶ Nor, "Latihan: Wadah Asnaf Berdikari", 12; Interview with Abdul Samad Ibrahim, Head of Asnaf Development Department, ZBS, Klang, May 14, 2010.

⁵⁷ Balwi *et.al*, *Pewujudan Usahawan Asnaf*, 145; Sahari, "Program Keusahawanan", 7.

⁵⁸ From approximately 250 monitored recipients in 2007, only about 60 could be considered successful. Balwi *et.al*, *Pewujudan Usahawan Asnaf*, 149; Sidek, "Usahawan Asnaf Zakat" 11; Report of monitoring services provided by Department of Asnaf Development, ZBS.

⁵⁹ Makhtar *et.al*, "Pengurusan Zakat", 12; Sidek, "Usahawan Asnaf Zakat" 11.

those who received income-generation aid from the ZBS. KUAZ in 2010 had more than 500 registered members producing many goods.⁶⁰

KUAZ with the Zakat Recipient Development Department collaborate to organized programs for their interest. Carnivals and exhibitions are the main media that the ZBS has usually chosen for providing recipients with an opportunity to market their products.⁶¹ Carnivals have been organized annually since 2008 where the ZBS spending approximately RM50,000 each year on such occasions. In these exhibitions, recipients' products will be displayed to promote sales.⁶² The exhibitions have been given a warm welcome by private and government sectors.

Apart from that, the KUAZ has also managed to collaborate with public to organize its activities. In 2010, for example, another carnival was organized and was supported by a big local retail company and a local entrepreneurs association which successfully attracted thousands of visitors and introduced the public to the existence of the recipients' products.⁶³

All the above measures show the growing commitment of the ZBS to empowering recipients through income generation programs, especially after 2004. In this aspect, ZBS has helped through a number of initiatives ranging from financial aid to assistance in marketing their products. These steps will directly and indirectly help them to survive in the real world.

7.3.2 Group projects

After 2004, a number of collective programs (*program berkelompok*) were also introduced. An important element reflected in the collective programs is the greater involvement of the ZBS in the offered projects. Unlike the ordinary capital distribution discussed earlier, in which the ZBS merely selects and indirectly monitors the achievement of the eligible recipients, the function of the organization in these projects is to directly manage the fund. The ZBS being the main manager on

⁶⁰ Information given by Research and Development Unit, ZBS.

⁶¹ "Lebih 1000 Usahawan Didedah Ruang Berniaga", *Asnaf*, 1/2008, 24;

⁶² "Lebih 1000 Usahawan Didedah Ruang Berniaga", 24; Lembaga Zakat Selangor, *Laporan Tahunan 2008* (Shah Alam: ZBS, 2009), 36; Interview with Fauzi Masdan, Head of Department, Entrepreneurial Development Unit, ZBS, Shah Alam, May 20, 2010.

⁶³ "Karnival Himpunan Usahawan Asnaf Selangor Bukti Kemampuan Golongan Fakir Miskin Berniaga", <http://www.e-zakat.com.my/baru/sistem/berita2/baca.asp?idno=755> (accessed March 31, 2010).

behalf of the poor, in some projects the poor are simply employed temporarily or permanently and the recipients receive remuneration based on their productivity.

In this case, we can observe the implementation of projects coming closest to realization of the theoretical idea put forward by the CEO of the ZBS in his earlier-mentioned presentation in 2004, although the body has never made that particular claim. Indeed, it would not be surprising if the body put its utmost effort into fulfilling its own leader's vision.

In respect of the group projects, the ZBS, according to its annual reports, has spent a considerable amount of money, as listed below:

Table 7.2: Distribution for group projects

Year	Amount (RM) *
2004	1135907
2005	1179950
2006	2112145
2007	3702859
2008	3300239
2009	3398014
2010	3760117
Total	13055771

Sources: ZBS, *Annual Report*, various issues

*The amount shown is total disbursement for group projects, which comprises (*modal kelompok*), funds for poor (*dana asnaf miskin*) and also the sewing workshop (*bengkel jahitan*).

The spending detailed above goes to several projects, as follows:

1. Sewing workshop

The sewing workshop is the ZBS's earliest project, dating back to 1997. Since at that time the ZBS required 8000 sets of school uniform annually, to be distributed to poor children, the workshop was established to fulfil this pressing need.⁶⁴ Needing a workforce to keep the production line running, the ZBS hired 10

⁶⁴ Balwi *et.al*, *Pewujudan Usahawan Asnaf*, 142; Tahir, "Konsep Agihan", 51; Information given by Hairudin Ahmad, ZBS sewing workshop supervisor, Tanjong Karang, May 5, 2010.

poor individuals, paid according to their productivity.⁶⁵ By this method, the ZBS could not only manufacture its own product but at the same time give the local poor the opportunity to obtain additional income.

Basically, the sewing workshop project was initially not designed as an income generation project, but only as a cheaper way of producing school uniforms. That is why, until 2004, the ZBS did not expand the workshop but kept it as it was.

The sewing workshop project was considerably extended after 2004. From then on, it was regarded as a group of projects. In 2004, the ZBS built another two workshops, followed by two more in 2007, making five already built across the state. Altogether, in 2010, the workshops were producing 23,000 school uniforms a year.⁶⁶

The rapid expansion and sharper focus of recent years has indicated that the ZBS recognizes its huge potential for income generation. The workshops have over time not merely produced uniforms but also played an important role as training centers, providing the selected poor with sewing skills in addition to stable incomes.⁶⁷

The sewing workshop initiative demonstrated that the ZBS can creatively use the fund to create job opportunities. The disbursement for the poor in this case is in the form of wages and also training. The ZBS chose to manufacture goods through its own production system which concomitantly provides job opportunities for the poor. This shows that the ZBS hold immense power to manage and spend the zakat fund, while the poor receive their portion in the form of pay. Proud of such a model of disbursement, the ZBS prominently publicizes this scheme as a model of development and empowerment for the poor.⁶⁸

2. Craft /Souvenirs project

⁶⁵ Mohd Fauzi Masdan, "Pembangunan Usahawan Asnaf: Pengalaman Pusat Pembangunan Usahawan, Lembaga Zakat Selangor" Paper presented in Sumbangsaran Program Pembangunan Ekonomi Asnaf, November 10, 2009, Shah Alam.

⁶⁶ Balwi *et.al*, *Pewujudan Usahawan Asnaf*, 142; Interview with Abdul Samad Ibrahim, Head of Asnaf Development Department, ZBS, Klang, May 14, 2010.

⁶⁷ See objectives of sewing workshop establishment. Balwi *et.al*, *Pewujudan Usahawan Asnaf*, 142.

⁶⁸ "Delegasi Keda Kagum Pengurusan Zakat PZS", *Asnaf*, 3/2004, 14; "Permaisuri Agong Lawat Desa Ehsan PZS", *Asnaf*, 3/2004, 14; Ahmad Shahir Makhtar, "Cabaran dan Transformasi Agihan Zakat Dalam Pembasmian Kemiskinan: Pengalaman Lembaga Zakat Selangor" in ed. Muhammad Syukri Salleh, *Transformasi Zakat Daripada Zakat Saradiri Kepada Zakat Produktif* (Penang: Pusat Urus Zakat MAINPP, 2011), 53-55; Mohd Zool Fadli Mohd Noor, "Projek Agihan Zakat", *Asnaf*, 1/2010, 14.

Another project on a model similar to that of the sewing workshop is the craft-making project. It was begun in 2005 and targeted poor single mothers or homemakers whom it provided with a profitable economic activity conducted from home.⁶⁹ The participants are provided with necessary trainings, which commonly held in nearby community centres. The project is based on collaboration whereby they are given individual tasks to complete in a group or in their respective houses, the results being later assembled in community centres. The projects are currently focusing on crafts made of discarded material such as newspapers or local agricultural by-products. For remuneration, each participant could receive between RM200 to RM1000 based on personal output.⁷⁰

The project is not, however, a profit-based enterprise, since the investment is still derived from zakat. The ZBS only sell the products to pay for raw material for the operation so as to keep it continuously running. Until 2010, there were 200 participants involved in this project, turning out four main craft products. Mainly sold from its showroom in Shah Alam and through other exhibitions organized from time to time by the ZBS, these crafts represent another project that the ZBS frequently displays to the public as an innovative model for helping recipients.⁷¹

3. *Pasar Asnaf* (zakat recipients' bazaar)

Pasar Asnaf or bazaar for zakat recipients was established in 2007 as part of the ZBS commitment to promoting income generation through entrepreneurship, with the particular aim of reducing poverty in urban areas.⁷² In the first project, located next to a property belonging to IRCS in the heart of Shah Alam, the state capital city of Selangor, the bazaar was able to accommodate 20 participants selling cooked foods, vegetables and other groceries.⁷³ Financially, the ZBS gave each individual start-up capital of between RM500 and RM2000, together with other basic equipment. Prior to its launch, the ZBS had spent overall about 30,000 for initial

⁶⁹ Balwi *et.al*, *Pewujudan Usahawan Asnaf*, 143; Masdan, "Pembangunan Usahawan Asnaf" 2.

⁷⁰ The information regarding the process and procedure craft making is provided by Norazrina Rahman, ZBS monitoring officer, Shah Alam, May 21, 2010.

⁷¹ Masdan, "Pembangunan Usahawan Asnaf", 2;

⁷² Masdan, "Pembangunan Usahawan Asnaf", 4; "LZS Sedia RM100 000 Anjur Pasar Rakyat Asnaf" *Harian Metro*, March 12, 2007;

⁷³ Sidek, "Usahawan Asnaf Zakat" 11;

investment.⁷⁴ Officially launched in Mac 2007, the bazaar has since been open every Saturday from 7am to 1 pm and also during the whole month of *ramadān*.⁷⁵

The success in first bazaar led the ZBS to extend its range to other areas. In 2009 another market was established to accommodate a further 39 zakat recipients as vendors. This move was stimulated by the ZBS's observation that, at the first bazaar, the monthly income of the seller could reach between RM1000 and RM3000.⁷⁶

From the initiation of this program, it shows, besides direct spending of the zakat fund on eligible recipients, a significant degree of ZBS involvement. These two markets have been established specifically for poor sellers under the auspices of the ZBS in collaboration with the local authority of Shah Alam.⁷⁷ It is evident that such a marketplace could not be established without the active involvement of the ZBS.

The vendors in this project are under close supervision and monitoring by a special supervisor appointed by the ZBS. In addition, they are subject to standard requirements determined by the ZBS, such as the use of standard equipment and the sale of only those goods which have been mutually agreed on. Overall, the ZBS has considerable influence on the projects beyond disbursing zakat.

4. Mobile entrepreneur

In the same year that the *Asnaf Bazaar* project was introduced, the ZBS initiated the Mobile Entrepreneur project, a trial scheme which gives each recipient a small van with which to conduct a mobile business, a popular local practice especially among those who have no permanent business outlet. The ZBS spent RM300,000 on the scheme, the largest sum ever disbursed for a project. In 2007 seven poor people were selected and provided with vans containing the necessary equipment for selling cooked food and beverages.⁷⁸

⁷⁴ Sidek, "Usahawan Asnaf Zakat" 11; "Orang Miskin Jadi Usahawan" *Berita Harian*, July 6, 2007.

⁷⁵ "Keunikan Bazar Ramadhan LZS", *Berita Harian*, September 25, 2007; "LZS Bantu Asnaf Miskin Berniaga", *Berita Harian*, September 18, 2007.

⁷⁶ Masdan, "Pembangunan Usahawan Asnaf", 4.

⁷⁷ "LZS Sedia RM100 000 Anjur Pasar Rakyat Asnaf" *Harian Metro*, March 12, 2007.

⁷⁸ Masdan, "Pembangunan Usahawan Asnaf", 3; "Laporan Program Pembasmian Kemiskinan Oleh Bahagian Pembangunan Ekonomi, Jabatan Pembangunan Asnaf LZS", Report paper for the period of July to September 2007, provided by Department of Asnaf Development, ZBS; "Orang Miskin Jadi Usahawan", *Berita Harian*, July 6, 2007; "Usahawan Bergerak Bantu Fakir miskin Tambah Rezeki", *Berita Harian*, July 12, 2007; Sidek, "Usahawan Asnaf Zakat", 11.

What is interesting about this project is that the poor were not granted complete ownership of the vehicles provided, but were required to pay a monthly rental fee of about RM500 for their use. A van would be handed over only if the participant could completely service the rent over a specified period of time (normally 5 years).⁷⁹

The mechanism of the project is to a certain extent similar to that of the *Asnaf Bazaar*, in that both are profit-based schemes focusing on business activities. The later project, however, has the distinct feature that ZBS in this case facilitates the acquisition of the van by making the initial purchase. This is a new means of zakat disbursement, akin to a loan. The project is still in the trial stage and will be gradually expanded. Should there be positive change for the recipients involved in the project, the ZBS will surely extend the program in future.

From the discussion of the complete range of income generation programs, we can infer that the ZBS has through time shown great concern for improving the condition of recipients through providing them with better opportunities to flourish. Viewing the pattern of disbursement for income generation since the end of the 1990s, we can see that the programs have been gradually expanded. At the end of the 1990s the disbursement merely involved monetary capital aid, which was later gradually complemented with non-monetary financial capital such as training and advisory services. Still, at this stage, the schemes are not necessarily all offered simultaneously, apart from the limited involvement of the ZBS in the initiative.

After the state government's inclusion of the ZBS under the poverty eradication agencies in 2004, the ZBS does not only continue to offer the existing personal distribution, but also gives greater attention to collective projects. In these projects, by contrast with previous practice, the ZBS is substantially involved with the distributed fund. As discussed above, two projects were established specifically for enhancing the recipients' skills while another two focused on development through business.

⁷⁹Lembaga Zakat Selangor, *Laporan Pengurusan Zakat Selangor 2006*, 34; Interview with Abdul Samad Ibrahim, Head of Asnaf Development Department, ZBS, Klang, May 14, 2010.

In sum, the distribution of zakat for income generation means not merely transferring zakat funds to the poor but also empowering the latter to enrich themselves and eventually to contribute to society. To achieve this objective, the ZBS has consistently and creatively improved its distribution systems over the years. The state government steps to incorporate the ZBS under the poverty eradication committee led by the chief minister has created additional momentum. Many income generation projects have been launched since then. The ZBS then has regarded income generation as the best program to focus on and has experimented with many initiatives to ensure that such projects achieve their aims. What has been done by the ZBS in this area could be regarded as complementing the state effort.

Such a process is certainly bound to continue, enabling zakat to serve the community in keeping with people's current needs, and simultaneously demonstrating the greater role that zakat can play in modern economic development. This, however, depends on support from the community, as the government can merely give advice and non-monetary help. Society's contribution, in forms (briefly touched upon earlier) such as warm acceptance during carnivals and increased donations to the fund, is more important. A positive reaction from society will indeed motivate the ZBS to be more creative in improving its income generation projects.

7.4 *Fatwa* on Zakat – Accommodative *Ijtihād*

As earlier mentioned, the *fatwa* and the *Mufti* are important integral parts of the overall zakat administration system. Although the ZBS, as a body responsible for the zakat fund, has considerable power over distribution, in certain respects it cannot act all by itself without the consent of the *Mufti*.⁸⁰ Looking back at the introduction of distribution for income generation and its pattern of development through the end of the 1990s and 2000s, it is certain that the *fatwa* exerts a certain degree of influence on it.

This is important because the introduction of income generation through zakat in Selangor complements the state effort to eradicate poverty, so that the *fatwa*,

⁸⁰ Mufti Negeri Selangor, "Fatwa Pengurusan Agihan Zakat Negeri Selangor", 5.

too, must accommodate these changes. In this case, the *Mufti* must not merely restate classical opinions, but must approach the new ruling in terms of the new demand.

The *Mufti* is the most authoritative religious personage in the state. It is accordingly a requirement of state religious enactments that he must be consulted should any issue arise that pertains to Islam, including zakat.⁸¹ It is also pertinent for ensuring that the ZBS be seen as free from any hidden agenda, especially when a new way of fund disbursement, with which the masses are still not familiar, is about to be launched.⁸²

To reach a desired decision, the process of *ijtihad* may involve only an individual *Mufti*, but he can also seek advice from other qualified individuals. As far as the process of *ijtihad* to deliver *fatwas* in Selangor is concerned, the *Mufti* normally will take into consideration the opinions of the *fatwa* committee's members. It is however up to him either to agree with them or to come up with his own final decision.⁸³

The process of producing a *fatwa* regarding zakat normally starts with new issues raised by the ZBS. For this purpose, the ZBS has to submit a working paper, mentioning the problems about which it wishes to be enlightened, complete with justifications and any necessary references backing up its arguments.⁸⁴ These materials will accordingly be deliberated on by the *Mufti*, who will then deliver his decision, either clearly consenting to the request or rejecting the application and giving reasons.

The *fatwa* concerning zakat is associated with the context and needs of the zakat institution, especially where any new problematic issue demands clarification. Prior to the introduction of productive disbursement, the question of zakat distribution was seldom discussed. This is not surprising as the disbursement

⁸¹ Refer to previous chapter; Administration of the Religion of Islam Enactment (State of Selangor) 2003, Section 48.

⁸² Sahadan Ishak, "Pengagihan Zakat Saksama Keadilan Sosial Terbela", *Asnaf*, 2/2005, 4; Normala Mohd Sa'ad and Sahadan Ishak, "Teluskaah Agihan Zakat di Selangor", *Asnaf*, 2/2005, 8.

⁸³ Ahmad Hidayat Buang, "Penyediaan Dan Pengeluaran Fatwa", in *Fatwa di Malaysia*, ed. Ahmad Hidayat Buang (Kuala Lumpur: Jabatan Syariah dan Undang-undang APIUM, 2004), 97-101; Kasnan, *Institusi Fatwa di Malaysia*, 68; Wahab, "Pentadbiran Fatwa di Negeri Selangor", 74-75.

⁸⁴ The process of producing a *fatwa* and preparation of working paper are briefly discussed in Buang, "Penyediaan Dan Pengeluaran Fatwa", 101, 108;

consisted mainly of direct distribution of money to the poor; hence there was no serious problem requiring a new *fatwa*.

However, a few *fatwas* on zakat disbursement were recorded prior to the 1990s. In the 1980s, for example, there was a *fatwa* for disbursement of the fund to refugees from Afghanistan, and a question arose concerning distribution under the heading of *fī sabīl allāh*. In the former case, the *Mufti* gave an affirmative answer.⁸⁵ As for the latter, the *fatwa* said that the fund could be channelled towards, among other things, religious schools, mosque building and educational scholarships. However, the *fatwa* stressed that the distribution must be managed by the zakat body.⁸⁶

The earlier *fatwa* on zakat disbursement, which provided a preliminary framework for the permissibility of income generation disbursement, was only produced in 1994. Since the zakat body was corporatized in the same year, such a *fatwa* was perhaps part of the process of giving the new organization basic guidelines on zakat. The *fatwa* gave some examples of how zakat could be given to the poor, including the provision of business capital and tools which could help them to prosper.⁸⁷ Considering the fact that, during the decade of the 1990s, the zakat collection was still low and the disbursement was still inefficient, the *fatwa* seemed not to offer any very propitious options.

As will be seen later in this section, the income generation issues are more prominently reflected in the *fatwa* on zakat disbursement produced in 2002, which was also used as a distribution guideline for the ZBS. This guideline is more detailed than any previously published *fatwa* on disbursement. The 2002 guideline comprises a few sections covering the general principle of distribution, the programs the ZBS should offer to each group of recipients, and also the legal evidence from which the rulings are derived.⁸⁸ The guideline was revised in 2008, since it is the policy of the ZBS to keep revising it to enable the system to accommodate the ever-changing

⁸⁵ Jawatankuasa Fatwa Selangor, “Keputusan Mesyuarat Jawatankuasa Fatwa Negeri Selangor Tahun 1987”, 23.

⁸⁶ Wahab, “Pentadbiran Fatwa”, 95.

⁸⁷ Mufti Negeri Selangor, *Fatwa Warta Kerajaan Negeri Selangor Darul Ehsan 1991 Hingga 1997*, 15.

⁸⁸ Mufti Negeri Selangor, “Fatwa Pengurusan Agihan Zakat Negeri Selangor”; Jabatan Mufti Selangor, Meeting minute of Fatwa Committee, File no. Mesyuarat J/Fatwa 5/2001.

conditions of Muslim society.⁸⁹ Apart from the guidelines, many other related issues have been discussed in *fatwa* meetings from time to time. These *fatwas* were based on questions brought earlier by the LZS, in case any issues arising from them should need to be clarified.

As regards income generation through zakat distribution and its related issues, apart from the 2002 guideline, these matters have been directly and indirectly discussed in *fatwas* produced later, as well as in some papers and interviews with the *Mufti*. Discussion of the *fatwa* can be divided into several issues as follows:

7.4.1 Issue of disbursal priority in poverty eradication and income generation

The establishment of the 2002 guideline was basically a response to the proposal earlier submitted based on some suggestions made by workshop panels held in 1999. As earlier mentioned, the workshop was held by the ZBS right after the body became responsible for fund disbursement. Its purpose was to acquire a more comprehensive directive, establishing principles of distribution which would make it easier for the body to conduct its day-to-day operations.⁹⁰

The *Mufti* eventually approved a *fatwa* on zakat distribution which was also a primary guideline for the ZBS to refer to in the course of its activities. Hoping that the guideline could help the ZBS to disburse the fund more effectively, the *Mufti* himself mentioned that it had been delineated so as to suit the current need and new interpretation (*penafsiran semasa*).⁹¹

In the paperwork submitted in 1999, the ZBS suggested, among other things, that the zakat fund should be mainly directed towards eradicating poverty, basing the argument on the prophet's saying that zakat is the duty taken from the rich and given to the poor in the community.⁹² This proposal received a positive response from the *Mufti* in the guideline through the principles of fund disbursal outlined in it. One of the principles is that of *Isti'āb* (inclusiveness), which states that the disbursement

⁸⁹Jabatan Mufti Selangor, Meeting minute of Fatwa Committee, File no. Mesyuarat J/Fatwa 6/2008; "Kertas Cadangan Mengemaskini Fatwa Sistem Pengurusan Agihan Zakat Negeri Selangor" Paper presented in Fatwa Meeting, December 30, 2008.

⁹⁰ "Sistem Agihan Asnaf Diberi Nafas Baru", 10; Pusat Zakat Selangor, "Catatan Ringkas"; Pusat Zakat Selangor, "Kertas Cadangan Mengemaskini".

⁹¹ Mufti Negeri Selangor, "Fatwa Pengurusan Agihan", preface.

⁹² Refer to Bukhari, Sahih Bukhari, Volume 2, Book 24, Number 537 available at <http://www.usc.edu/schools/college/crcc/engagement/resources/texts/muslim/hadith/bukhari/024.sbt.html> (accessed March 20, 2011); Refer also to Pusat Zakat Selangor, "Kertas Cadangan Mengemaskini", 4.

should encompass all eligible recipients should they all be available at the moment of disbursal.⁹³ This does not mean, however, that the distribution must be extended equally to all the recipients. The *fatwa* in this regard separated eligible recipients into two groups. The first includes the poor (*miskīn*), the needy (*faqīr*), the zakat collector (*‘āmil*) and those whose hearts are to be won (*muallaf qulūbihim*); while the second includes the captives (*al-riqāb*), the debtors (*al-ghārimīn*), the wayfarers (*ibn al-sabīl*) and those in the path of Allah (*fī sabīl allāh*). As far as distribution is concerned, the first group should be given priority over the second.⁹⁴

In this aspect, such a view is actually derived from the classical understanding of the Shāfi’ī school in particular, who are of the view that the first group should receive more attention through distribution of the fund in person with complete ownership of it. Regarding the productive distribution, the guideline clearly stipulated that the objective of distribution for the poor and needy is to develop them and help them out of poverty for good. The zakat body should also establish initiatives for economic development. As for the concrete practice, the guideline underlined the type of distribution for income generation, such as capital aid for business and for initiatives such as agriculture and fisheries, among others. The poor and needy recipients also could be given necessary training and courses to enhance their capability and skills.⁹⁵

Apart from the official *fatwa*, the same aspiration has also been expressed by the *Mufti* through other means. In an interview concerning zakat disbursement in 2005 for example, he stated that the zakat is a core Muslim economic system which counts poverty eradication among its objectives. According to him, the zakat does not merely release the beneficiaries from poverty, but also transforms them into potential payers.⁹⁶

Although we could not determine with absolute certainty why the interview was conducted at this time, in view of the fact that many projects related to income

⁹³ Mufti Negeri Selangor, “Fatwa Pengurusan Agihan”, 4.

⁹⁴ Mufti Negeri Selangor, “Fatwa Pengurusan Agihan”, 22.

⁹⁵ Mufti Negeri Selangor, “Fatwa Pengurusan Agihan”, 8, 11.

⁹⁶ “Wawancara Berhubung isu Menegeluar dan Mengagihkan Zakat Secara Sendiri bersama S.S Dato’ seri Utama DiRaja Mufti Selangor”, <http://www.muftiselangor.gov.my/E-Book/Download/Temuramah/1TemuramahAgihanZakat.pdf> (accessed March 21, 2011).

generation were initiated in 2004, there was nothing strange about seeking greater clarification or reconfirmation from the main individual to provide the ZBS with stronger justification.

Apart from the interview, this practice was elaborated in greater detail in a more recent guideline revised in 2008. Under the principle of *awlawiya* (priority) which was newly introduced, the poor and needy must be given priority to the extent that if the needs of these groups are sufficiently pressing, the provision for other groups could be transferred to meet their needs.⁹⁷ Such a statement could be perceived as a blanket approval for giving an advantage to those groups over other rightful recipients.

Since the *fatwa* has indicated that income generation and poverty eradication provide the approach the ZBS must adopt, it is not surprising that there has been a gradual increase in provision for this segment since early 2000. This also shows how *ijtihad* reacts to current demand, in this case to the ZBS enquiry which was perceived as superior because of the ZBS's knowledge of the needs of rightful recipients.

7.4.2 Indirect intangible (*manfa'a*) disbursement for poor and principle of ownership

As mentioned in earlier chapter, the concept of *al-tamlīk* (conferral of ownership) denotes the right of the recipients to full title to the disbursed fund and, consequently, the right to determine freely how to spend it. Such a principle could only be realized in a situation in which the distribution involves tangible assets.⁹⁸ This issue merits discussion, since income generation through zakat in Selangor is closely related to the offer of initiatives which are clearly intangible in nature.

The issue of *al-tamlīk* is also related to the sharing of ownership among the poor. In this case, the disbursed fund will not be owned permanently by one individual but must be shared with other people. The mobile entrepreneur project is an example of a disbursement subject to this mechanism. The van provided to the

⁹⁷ Lembaga Zakat Selangor, "Kertas Cadangan Mengemaskini", 11.

⁹⁸ Please refer to the discussion regarding the principle of *al-tamlīk* in chapter 4 (Pakistan and Indonesia case).

selected participants will still be held by the ZBS as sole trustee of the fund.⁹⁹ Technically, the van belongs to all eligible recipients and the participants need to hire it on a monthly basis for a specified period of time before it is permanently surrendered. In other words, the recipients only have temporary and partial ownership within that period.

Although, in terms of development, this is a mechanism designed to improve the zakat distribution system and also to provide the poor with a profitable asset, it contradicts the ownership principle. Acquisition of the asset by the poor is unlikely without the help of zakat, since financial institutions would turn their backs on them.¹⁰⁰ A special section in the guideline devoted to the *al-tamlīk* concept is interesting to consider, as it shows how the issue is resolved by the *fatwa*.

As also discussed earlier, it is widely known that the majority of classical scholars are inclined to have zakat distributed tangibly. In this case, the majority of Ḥanafīs hold to the strictest ruling, according to which all recipients have the right to full title; while Shāfi'īs are of the rather lenient view that the principle is only to be applied to the first four recipients stated in the verse (*al-tawba*: 60). The majority in the latter school, however, still hold that the poor and needy are subject to the principle.¹⁰¹

In contrast to classical opinion, the *fatwa* is affirmative in the matter of intangible distribution to the poor and needy. This ruling gives clear consent for the ZBS to choose to disburse any type of asset without restriction. In this respect, the *fatwa* is based on a hadith narrated by Anas, one of the prophet's companions. In the hadith, it was reported that prophet used to give permission for a group of people from 'Urayna tribe to utilize a herd of camel (as source of milk) which were given as

⁹⁹ Interview with Fauzi Masdan, Head of Department, Entrepreneurial Development Unit, ZBS, Shah Alam, May 20, 2010.

¹⁰⁰ Interview with Fauzi Masdan, Head of Department, Entrepreneurial Development Unit, ZBS, Shah Alam, May 20, 2010.

¹⁰¹ For further discussion refer: Muhammad Ibn Ahmad al-Shirbini, *al-Iqnā' fi Hall Alfāz Abi Shujā'*, v3 (Beirut: Dār al-Kutub al-'Ilmiyyah, 1996), 79; Shams al-Dīn Muhammad Ibn al-Khatīb al-Shirbini, *Mughnī al-Muhtāj ilā Ma'rifa Ma'āni Alfāz al-Minhāj*, v3 (Beirut: Dār al-Ma'rifa, 1997), 140; Ibn 'Abidīn, *Radd al-Mukhtār*, 171; Al-Kasānī, *Badā'i, Sanā'i*, v2, 39; Al-Buhūtī, *Kashaf al-Qinā'*, v2, 103.

zakat without completely owning them.¹⁰² The hadith, according to the *fatwa*, indicated the permissibility of giving intangible forms of zakat wealth.¹⁰³

With reference to the linguistic aspect, the preposition “*lī*” specified for the poor in *al-Tawba*: 60 does not mean ownership *al-tamlīk* but merely *al-takhṣīṣ* (specification), denoting that zakat must be given exclusively for the eight eligible recipients specified in the verse.¹⁰⁴ The *fatwa* then supports its arguments with the following:

Narrated Abū Ma'bad, (The slave of Ibn ‘Abbās), Allah's Apostle said to Mu'adh when he sent him to Yemen, "You will go to the people of the Scripture. So, when you reach there, invite them to testify that none has the right to be worshipped but Allah, and that Muhammad is His Apostle..... And if they obey you in that tell them that Allah has made it obligatory on them to pay the Zakat which will be taken from the rich among them and given to the poor among them....." ¹⁰⁵

The hadith (in Arabic) clearly shows that the poor, like all other recipients, are associated with the preposition “*fī*”. This is rather different from the pattern of usage in the verse *al-Tawba*, where only four groups (belonging to the second group) are addressed by such a preposition. What could be understood here is that there is no difference between “*fī*” and “*lī*” and hence they could be used interchangeably. The ruling therefore comes to the conclusion that the intangible disbursement may be freely offered to all groups including the poor and needy. This basically differs from the pure classical Shāfi’i’s view, as the majority of scholars in the sect only permitted the second set of four groups to receive such an offering.

Apart from that, the *fatwa* also ruled that the disbursement must be based on the public interest (*maṣlaḥa*). As for the best means of upholding the interest of the recipients, the ZBS is entitled to use its discretion to decide how the fund must be

¹⁰² Sahih Bukhari, Volume 2, Book 24, Number 577 available at <http://www.usc.edu/schools/college/crcc/engagement/resources/texts/muslim/hadith/bukhari/024.sbt.html> (accessed March 21, 2011).

¹⁰³ Mufti Negeri Selangor, “Fatwa Pengurusan Agihan”, 26.

¹⁰⁴ Mufti Negeri Selangor, “Fatwa Pengurusan Agihan”, 27; For further discussion regarding the debate over the usage of the preposition, refer: al-Shirbinī, *al-Iqnā’*, v3, 79; al-Shirbinī, *Mughnī al-Muhtāj*, v3, 140; Al-Buhūṭī, *Kashāf al-Qinā’*, v2, 103, 282; Abū Zakariyyā Muhyi al-Dīn ibn Sharaf Al-Nawawī, *Rawḍa al-Tālibīn*, v 2 (Beirut: Dār al-Kutub al-‘Ilmiyya, n.d), 178.

¹⁰⁵ Sahih Bukhari, Volume 2, Book 24, Number 573 <http://www.usc.edu/schools/college/crcc/engagement/resources/texts/muslim/hadith/bukhari/024.sbt.html> (accessed March 21, 2011).

disbursed.¹⁰⁶ This argument could be based on the opinions of a few classical scholars. Ahmad Ibn ‘Alī ibn Muhammad (known as Ibn Ḥajar al-‘Asqalānī (773-852 AD)), a classical Shāfi’ī scholar for example, is of the view that the ruler (*al-wālī*) should determine the portion to be given to the recipients, on the basis of their needs. In doing so, the ruler could assist them from the zakat fund, which does not necessarily mean distribution of the fund itself in physical form.¹⁰⁷ In more or less similar vein, Malik Ibn Anas (711- 795 AD), the founder of Maliki school of law, argued that the disbursement of the zakat fund must be at the discretion of the ruler, who has the best knowledge of the people’s affairs.¹⁰⁸ In addition, the *fatwa* reflected one of the maxims of Islamic law (*Qawā’id Fiqhiyya*) as outlined by another Shāfi’ī scholar, Jalāl al-dīn al-Suyūṭī (1445-1505 AD), namely, “The affairs of the *imām* concerning his people are judged by reference to *maṣlaḥa*”.¹⁰⁹

As is evident from the above discussion, the *Mufti* through the *fatwa* has clearly approved intangible disbursement and incomplete ownership, an issue that has been discussed by classical scholars. The consent indirectly encourages the ZBS to creatively enhance the effectiveness of zakat use to the best of its knowledge and understanding, in accordance with the prerogative bestowed upon it.

In 2005, the ZBS carried out a study of its disbursement practice before asking for clarification as to whether disbursement in the form of intangible assets should be limited. This was because the 2002 fatwa merely gave permission for the disbursement without delineating its limits. In this case, the ZBS apparently wanted to avoid going overboard with a policy that might lead to a waste of funds.¹¹⁰

If we look into the background of the situation at the time, it was actually an unsurprising act, as in 2004 the ZBS had introduced many training programs. While

¹⁰⁶ Mufti Negeri Selangor, “Fatwa Pengurusan Agihan”, 28.

¹⁰⁷ Ibn Ḥajr Al-‘Asqalānī, *Fath al-Bārī Sharh Ṣaḥīḥ al-Bukhārī*, v. 3 (Riyadh: Maktaba Mālik Fahd al-Waṭaniyya, 1421H), 428; Mufti Negeri Selangor, “Fatwa Pengurusan Agihan”, 27.

¹⁰⁸ Abū al-Walid Sulaymān al-Bājī, *Al-Muntaqā Sharh Muawatta’*, v. 3 (Lebanon: Dār al-Kutub al-‘Ilmiyya, 1999), 236; Mufti Negeri Selangor, “Fatwa Pengurusan Agihan”, 28.

¹⁰⁹ Jalāl al-Dīn Ibn ‘Abd al-Rahmān al-Suyūṭī, *al-Ashbāh wa al-Nazāir*, v 1 (Beirut: Dār al-Kutub al-‘Ilmiyya, 1983), 202; Mufti Negeri Selangor, “Fatwa Pengurusan Agihan”, 28; Mohammad Hashim Kamali, “Qawa’id al-Fiqh: The Legal Maxims of Islamic Law”, The Association of Muslim Lawyers UK, available at: <http://www.iais.org.my/en/publications/selections/item/49-qawa%E2%80%98id-al-fiqh-the-legal-maxims-of-islamic-law.html> (accessed March 21, 2010).

¹¹⁰ Lembaga Zakat Selangor, “Pengesahan Aktiviti Agihan dari Dana Fakir Miskin 2005 dalam Konteks Zat dan Manfaat”, Paper presented in Fatwa Meeting, June 26-27, 2006.

in this case there is no record indicating rejection or social resentment of the programs, it is still possible that payers or the public in general demanded clarification of the issues related to their introduction. That may be why the ZBS stated in its proposal that a *fatwa* was needed to enable the body to offer a concrete explanation (*membuat penjelasan*) to society.

Of 3800 recipients among the poor and needy who were surveyed, 63% received the disbursement in the form of intangibles such as various courses, training, house rentals and insurance. Fewer than 40% received tangible assets such as money and other necessities.¹¹¹

Responding to the ZBS proposal, a *fatwa* produced in 2006 expressed the opinion that no limit should be set as long as the interests of the recipient are taken care of. In addition, the *fatwa* suggested that the focus should be on development and personal confidence-building, as well as on causing people to become more observant Muslims. This means that the intangible disbursement is as important as the tangible disbursement, with the two complementing each other. From this *fatwa* it appeared that the ZBS need have no more concerns about offering creative programs in accordance with public need. The issue of the scope of ZBS power will be elaborated further in the next subsection.

7.4.3 Issues of the limit of funds disbursed and monitoring service

The provision of income generation aid usually involves a great deal of money. The over-disbursed will jeopardize others' prospects of similar aid, while the projects of the underfinanced will end in failure. Hence, the amount and limit of disbursement for income generation is a matter with which the ZBS needs to concern itself.

The distribution limit has actually been specified by some classical scholars. As referred to in an earlier chapter, Ḥanafī scholars have stipulated that no distribution may exceed the value of *niṣāb* (the minimum value of taxable assets). Other classical jurists, on the other hand, are of the view that recipients could receive assistance to the extent of the sufficiency limit. But how the sufficiency limit is

¹¹¹ Lembaga Zakat Selangor, "Kajian Keberkesanan Agihan Zakat Dari Segi Zat dan Manfaat" in *Pengesahan Aktiviti Agihan dari Dana Fakir Miskin 2005 dalam Konteks Zat dan Manfaat*, Paper presented in Fatwa Meeting, June 26-27, 2006, 4.

determined is an interesting question, especially when it involves the distribution for income generation.¹¹²

The issue of the distribution limit has been touched on in several *fatwas*. The 2002 guideline, for example, briefly indicated that the disbursement must be sufficient to meet basic needs.¹¹³ In this context, the principle of *kifāya* (sufficiency) is among the factors highlighted in the guideline. The principle means that the provision of zakat must suffice for the individual's needs in terms of basic requisites including food, clothing, shelter, education, health expenditure and transportation.¹¹⁴ In this respect, the minimum household sufficiency (*had al-kifāya*) in monetary denominations was introduced through a *fatwa* in 2002. As discussed in chapter 6 and shown in appendix 2, the *had al-kifāya* is the mechanism for measuring the economic condition of applicants for zakat funding. Those who earn less than the minimum limit are considered poor and entitled to zakat assistance.¹¹⁵

In the implementation of the principle of *kifāya*, those who need capital will be helped to the extent that they can be expected to achieve at least minimum level of income (*had al-kifāya*).¹¹⁶ As the ultimate objective of the disbursement for the poor and needy, as stated in the guideline, is release from poverty, no strict maximum amount of disbursement has been specifically set. This is important, since it means that the provision for them will be enough to generate income, rather than being directed towards meeting their daily needs. As the assessment is carried out annually for those who receive capital aid, they will cease to be given zakat if their initiative or business yields income above the *had al-kifāya*.¹¹⁷

¹¹² For further discussion about the dispersal limit refer : Al-Sarakhsi, *al-Mabsūt*, v3, 4; Ibn Humam, *Sharh Fath al-Qadīr*, v2, 266, 303-306; Ibn 'Ābidīn, *Radd al-Mukhtār*, v.3 , 303; Sham al-Din Muhammad ibn Ahmad al-Ramlī, *Nihāya al-Muhtāj ilā Sharh al-Minhāj fī al-Fiqh 'alā Mazhab al-Imām al-Shāfi'*, v6 (Cairo: Matba'ah al-Halabi, n.d), 159.

¹¹³ Mufti Negeri Selangor, "Fatwa Pengurusan Agihan", 6.

¹¹⁴ Mutalib, "Keciciran Fakir Miskin", 4; Jantan, "Takrif Fakir dan Miskin", 24.

¹¹⁵ Noor, "Memahami Haddul Kifayah", 29; Jabatan Mufti Selangor, Meeting minute of Fatwa Committee, File no. Mesyuarat J/Fatwa 2/2002; Mutalib, "Keciciran Fakir Miskin", 4; Jantan, "Takrif Fakir dan Miskin", 24; Jabatan Wakaf, *Zakat dan Haji, Manual Pengurusan Agihan Zakat* (Putrajaya: JAWHAR, 2007), 15-26.

¹¹⁶ Mufti Negeri Selangor, "Fatwa Pengurusan Agihan", 6-7; Mujaini Tarimin, "Memantapkan Pelaksanaan Agihan Zakat Oleh Institusi Zakat di Malaysia: Satu Saranan Penambahbaikan", *Jurnal Pengurusan JAWHAR* (1)(3)(2009): 63.

¹¹⁷ Interview with Fauzi Masdan, Head of Department, Entrepreneurial Development Unit, ZBS, Shah Alam, May 20, 2010.

To ensure that the disbursed fund is utilized only for income generation, the ZBS must maintain a systematic fund administration. Through the principle of *murāqaba* (monitoring), the guideline indicated that the disbursement must be under proper management accompanied by close supervision.¹¹⁸ According to the principle, any application for zakat funding from prospective recipients must be first certified by at least two individuals. In this respect, the process of fund management demands complete honesty from ZBS staff at all levels of administration.¹¹⁹

In addition, the disbursement must be accompanied by a proper monitoring mechanism, to confirm that the disbursed fund is used in the manner agreed upon prior to the disbursement. Should there be any fund diversion or contract breaking, the ZBS has the right to take any necessary action such as admonition or cessation of further aid.¹²⁰

In close connection with what has been discussed earlier, although the ZBS has considerable power to determine the distribution approach and to supervise the disbursed funds, according to the *murāqaba* principle, the body must at the earliest possible date consult the *Mufti* for clarification should any new legal issue arise.¹²¹ As we have seen in this section, it seems that the ZBS has never bypassed the *Mufti* in any case needing clarification.

From the above discussion, it can be concluded that the expanding role of zakat, in particular regarding income generation, has involved changes in aspects of Islamic law. There are some issues related to distribution which have been reinterpreted to enable the implementation to suit modern requirements. As for zakat management in Selangor, the introduction of new *ijtihad* and its ongoing deliberation has involved direct collaboration between the ZBS and the *Mufti*.

From the *Mufti*'s perspective, income generation is among the best solutions to poverty eradication; hence the *fatwa*, as clearly evident, has accommodated necessary changes. The problem of intangible disbursement is no longer an issue.

¹¹⁸ Mufti Negeri Selangor, "Fatwa Pengurusan Agihan", 5; Ibrahim, "Economic Role of Zakat", 6.16.

¹¹⁹ Mufti Negeri Selangor, "Fatwa Pengurusan Agihan", 5.

Makhtar, "Cabaran dan Transformasi", 72; Sidek, "Usahawan Asnaf Zakat", 10-11.

¹²¹ Mufti Negeri Selangor, "Fatwa Pengurusan Agihan", 5; Sa'ad and Ishak, "Teluskah Agihan Zakat", 8.

In many respects, the *fatwas* produced by the *Mufti* regarding zakat distribution, besides being used as guidelines, underline principles which clarify the interrelated issues of income generation through zakat. Looking at the justifications and reasons given for the *fatwas* produced, it is clear that the process of *ijtihād* in modern Selangor does not strictly follow any particular classical opinion and no longer tied literally to classical texts.

The *fatwas* to an extent display independent reasoning which arrives at interpretations by examining the texts of the Quran and hadith. This occurred, as we have seen, in the matter of intangible distribution for the poor, in which the ruling was deduced directly from the two sources. Looking back to the type of *ijtihād* introduced by al-Qardawi in Chapter 2, perhaps such an interpretation could be described as an *ijtihād bayani* – that is, applicable to the cases mentioned in the Quran and hadith but in need of further explanation.

Besides that, the ZBS also offered zakat funding in keeping with the public interest and recipients' needs, confirming the important role that zakat can play in economic development. In this case, the statement in the *fatwa* that the ZBS has the right to disburse the fund at its discretion for the interest of society could be a form of what al-Qardawi characterized as *ijtihād istiṣlahī* – deducing new rulings on the basis of public interest.

Although what is suggested regarding the type of *ijtihād* employed may not be accurate, the important thing we can glean from the discussion in this section is that Islamic law has been proved to be dynamic when facing changes in modern society and the economy.

7.5 The Achievement and Impact

The income generation implemented in Selangor has had an impact in many respects, particularly on recipients, and to a greater extent on the zakat institution. The impact can be seen from economic and non-economic perspectives, as follows:

7.5.1 Economic betterment of recipients

The poverty eradication and disbursement for income generation has to a certain degree contributed to the improvement of recipients' living conditions. A few studies have been carried out to measure the impact of the initiative upon the poor in Selangor.

In 2001 Nor Ghani Md. Nor *et al.* conducted research on the extent to which income generation programs have helped the recipients to successfully raise their income.¹²² They selected a sample of 106 recipients of capital aid (mainly business aid) to be analyzed as to whether they had succeeded in their economic activities. As the study concentrated on zakat recipients residing in the Klang valleys and surrounding area, 50 persons in the sample received the aid from the ZBS. The evaluation is based on the change between recipients' income before and after they received the aid. In addition, the research was designed to identify related factors leading to the success or failure of their businesses.¹²³

The research indicated that the zakat fund has to a notable extent promoted the advancement of recipients' living standards. In a fairly encouraging result, 67% of the recipients were considered successful as their incomes were generally higher than they had been prior to receiving the capital aid.¹²⁴ Some factors were identified as having contributed to the success rate, namely, gender, supervision and experience gained before receiving the aid. In this regard, the supervisory factor is empirically the most significant, as those who received better and more frequent supervision were more likely to be successful. To a lesser extent, female gender and past experience in business contributed to the higher success rate.¹²⁵

The downside of the research is that it was not based on a large sample of respondents, so it would not be easy to generalize the findings with application to the whole state. Although it might not have produced such a favourable result had it incorporated more respondents, the study still gives us a clue to the importance of supervision as a crucial element of the income generation program. In this regard, it was found that financial distribution is not sufficient by itself, but needs to be supported with non-financial factors as well.

¹²² Nor *et.al*, "The Contribution of Zakat", 69-70.

¹²³ Nor *et.al*, "The Contribution of Zakat", 73-74.

¹²⁴ Nor *et.al*, "The Contribution of Zakat", 76.

¹²⁵ Nor *et.al*, "The Contribution of Zakat", 76-78.

What is interesting to note here is that, although the ZBS had not yet introduced a systematic and comprehensive income generation program, the capital aid offered at that time at least slightly advanced the recipients' standard of living. This was indeed an initially good experience for the zakat institution, encouraging the further introduction of such initiatives.

Patmawati Ibrahim conducted another study of 480 zakat recipients in Selangor. Closely collaborating with the ZBS in 2002, she based her study on the population of 5862 poor recipients throughout the state.¹²⁶ The objectives of the research were among other to analyze the effect of zakat distribution in Selangor on income inequality and poverty in society.¹²⁷ More or less similar to Nor's, this study seeks to determine whether post-zakat assistance income distribution is more equal than pre-zakat assistance income distribution.¹²⁸ In order to evaluate income inequality two main statistical analyses were employed, namely, the Lorenz curve and the Gini Coefficient.

The Lorenz curve is a graphical representation of the cumulative distribution function of the empirical probability distribution of wealth. The curve shows, for the bottom percentage (x%) of households, what percentage (y %) of the total income belongs to them.¹²⁹ Within the study sample, the recipients prior to receiving zakat belonged to the bottom 10% of the population, holding merely 0.4% of total income, while the top 10% held more than 35% of the total income.¹³⁰

Another statistical approach used in the research is the Gini Coefficient, which ranges from 0 to 1. A low Gini Coefficient indicates a more equal distribution, with 0 corresponding to complete equality. The most unequal society will be one (G=1) in which a single person receives 100% of the total income and the rest of the population receives none; while the most equal society will be one (G=0) in which every person receives a similar amount of income.¹³¹

¹²⁶ Ibrahim, "Economic Role of Zakat", 7.1.

¹²⁷ Ibrahim, "Economic Role of Zakat" 1.20.

¹²⁸ Ibrahim, "Economic Role of Zakat", 5.8.

¹²⁹ Jonathan Haugton and Shahidur R. Khandkar, *Handbook on Poverty and Inequality* (Washington D.C: The World Bank, 2009), 104-106; Ibrahim, "Economic Role of Zakat", 2.1-2.6.

¹³⁰ Ibrahim, "Economic Role of Zakat", 7.9.

¹³¹ Haugton and Khandkar, *Handbook on Poverty*, 104-106.

Regarding income equality, the research found that, without zakat aid, the index was 0.52. However, it was observed that the index was slightly lower, at 0.47, after the zakat had been disbursed. This indicates that zakat disbursement contributed to more equal income distribution.¹³² A similar pattern could be observed in the Lorenz curve after zakat disbursement, with 10% of the bottom population holding 10% of total income, a proportion slightly higher than that prior to disbursal. At the same time, the top 10% of the population only held 32%, a slightly lower proportion of income than before zakat distribution.¹³³

In terms of poverty reduction, the research found that zakat successfully reduced poverty by approximately 15%, in which cases the income of the recipients exceeded the poverty line.¹³⁴ On average, the income of every recipient incorporated in the sample increased by approximately 27.5%.¹³⁵ The result showed that zakat has to a certain extent achieved its objective of poverty eradication by generating permanent relief.

Although Ibrahim's research offered comparatively more detailed analysis, it did not specifically focus on distribution for income generation. This was perhaps because, at the time of the study, distribution for income generation was still new and unorganized, making individual measurement somewhat problematic. The result, however, still appreciably reflected the overall performance of zakat disbursement, including income generation programs. It should be noted that it is a normal practice, according to Ibrahim, for the ZBS to provide many incentives to productivity, such as capital aid and skills training. As the majority of the sample of recipients (52%) were between 25 to 55 years old, which is the age of productivity, they could definitely receive capital aid as well as other non-productive capital.¹³⁶

In 2009, the ZBS itself ran a brief internal audit covering 222 out of 1772 recipients who had received capital and income generation aid since 2000. The brief study was carried out from 2004 to 2006.¹³⁷ This step was part of an internal exercise

¹³² Ibrahim, "Economic Role of Zakat", 7.11.

¹³³ Ibrahim, "Economic Role of Zakat", 7.9.

¹³⁴ Ibrahim, "Economic Role of Zakat", 7.20

¹³⁵ Ibrahim, "Economic Role of Zakat", 7.5

¹³⁶ Ibrahim, "Economic Role of Zakat", 6.52.

¹³⁷ Masdan, "Sumbangsaran", 7.

to determine the overall performance of the income generation program. Mohd Fauzi Masdan, head of the department managing income generation affairs throughout the state, delivered the report at a seminar in November 2009.¹³⁸

From the last part of the report, we can see briefly how well the income generation programs in the state had performed. The recipients were divided into four groups, namely, successful, potential, unchanged and failed. The category of successful recipients referred to those who had reached incomes above *had al-kifāya*, and whose economic initiatives were running smoothly without the need for further zakat assistance. “Potential” recipients were those who were not yet out of poverty, although their existing activities were still in operation and achieving a higher income than before they were given capital aid. The report indicated that the former group comprised 11% of overall audited recipients whilst the latter consisted of 9%.¹³⁹

The next category, “unchanged” recipients, consisted of those who had not benefitted from the distribution, their activities remaining the same with no improvement. In other words, the zakat fund provided had neither increased nor reduced their professional income. This segment must be further helped to enable them to be more successful, lest they fail completely. This group comprised 32% of the total sample of recipients. It is, however, unfortunate that, as the report revealed, 48% of the recipients belonged to the last, “failed” group, whose distribution-aided projects ended in total failure. Normally, in this case, their business or economic activities no longer existed and they were back to relying on zakat distribution.¹⁴⁰

Although the report incorporated a huge number of recipients, it was very brief and no empirical analysis was employed, making a more critical deliberation rather difficult. The findings relied considerably on internal records of the ZBS and personal observations by staff, carried out during the supervision process. The study

¹³⁸ The Seminar was about how to improve economic programs offered by ZBS. It was organized by ZBS on November 10, 2009 in Shah Alam.

¹³⁹ Masdan, “Sumbangsaran”, 7. The further detail about the report have been obtained through an Interview with Mohd Fauzi Masdan, Head of Department, Entrepreneurial Development Unit, ZBS, Shah Alam, May 20, 2010.

¹⁴⁰ Masdan, “Sumbangsaran”, 7.

also did not give any explanation of the pattern of the findings or the factors contributing to the recipients' success or failure.

It is interesting to note that, despite this less than remarkable achievement, the ZBS throughout the report expressed the strong belief that the practice in question could be improved with time. Looking at it positively from a different perspective, Masdan was of the opinion that there must be more concentration on the programs. According to him, this was the only way that the zakat could turn the recipients into payers, hence ensuring the future inflow of zakat collection. He then cited in the report a few examples of former zakat recipients who had achieved remarkable development in their professions and secured a considerable monthly income as a result of the program.¹⁴¹ With the trend indicated by the continuing increase in provision for this program, the ZBS seemed to agree with Masdan and is continually providing the support necessary to achieve its ultimate objective.

The most recent research was done by Hamdino Hamdan in 2009. In this case, Hamdan considered the ZBS income generation programs as a micro financing initiative, in which the grants resembled those given by other institutions, namely, Amanah Ikhtiar Malaysia (AIM), Yayasan Tekun Nasional (TEKUN) and Yayasan Basmi Kemiskinan (YBK). These are among active institutions in Selangor that offer funding aid for income generation programs. The way in which ZBS slightly differs from these institutions is through offering its aid without requiring the recipients to pay it back, whereas the others only provide loans for the poor.¹⁴²

In general, the research tried to analyze and empirically measure the performance of each organization in helping the poor through their income generation programs, and to identify factors associated with their success or failure.¹⁴³ The research incorporated 446 recipients from all bodies, including 49 ZBS recipients, and all resided in Selangor. In considering the findings of this study we shall concentrate especially on its value regarding ZBS, as the main focus of this thesis, with a brief reference to other organizations where necessary.

¹⁴¹ Masdan, "Sumbangsaran", 1, 7-8.

¹⁴² Hamdino Hamdan, "Keberkesanan Program Kewangan Mikro di Kalangan Orang Miskin di Malaysia: Kajian Kes di Selangor", Phd Thesis, University of Malaya, 2011, 197.

¹⁴³ Hamdan, "Keberkesanan Program", 22.

The ZBS, according to Hamdan's findings, succeeded in helping the recipients to move away from poverty. They achieved a significant increment in their income and profit from their businesses by an average increase of RM1000 per month. The research also revealed several important factors contributing to this performance: recipients' personal experience, the age of the business and monitoring aid. Working experience prior to receiving aid boosted performance.¹⁴⁴ As stated earlier, these findings are consistent with Nor's research carried out eight years earlier.

Monitoring, as previously found, was again the key element of success. The study clearly showed that monitoring is the critical factor in income generation programs, and must be brought into sharper focus by all institutions. AIM emerged as the best in this respect, enabling the organization to remain on top as compared to the other researched bodies.¹⁴⁵

Although the ZBS has now been proven to be among the important institutions offering support for the poor in the state, its overall performance indicated that it only came third after AIM and TEKUN. Hamdan successfully revealed some problems pertaining to the overall practice of ZBS. The training and supervision implemented by ZBS still have not been really effective. Only 63% of the zakat recipients were visited occasionally by zakat officials. When asked about supervision, 71% of them believed that the ZBS still did not do what was required and that they needed more attention of this kind.¹⁴⁶ As with supervision, they also believed that training was important in helping them to improve their income generation practices. The majority of them, not fully satisfied with the training provided, scored ZBS less than 4 out of 5.¹⁴⁷ Based on this result, Hamdan concluded that if the ZBS wanted to improve its programs it would first need to rectify these two shortcomings.

From the above discussion and the research findings, it is undeniable that zakat has the potential to be an effective development tool, especially in regard to poverty eradication through income generation. The income generation programs

¹⁴⁴ Hamdan, "Keberkesanan Program", 384.

¹⁴⁵ Hamdan, "Keberkesanan Program", 397.

¹⁴⁶ Hamdan, "Keberkesanan Program", 314.

¹⁴⁷ Hamdan, "Keberkesanan Program", 306.

offered by the ZBS have through time proved able to achieve a certain level of success in helping the poor to free themselves from the poverty cycle. What is interesting is that this role has been gradually recognized through studies and research projects in which the role of zakat is not perceived merely as distribution of a religious fund. The zakat institution is currently comparable to other non-religious development institutions operating hand-in-hand to achieve the common objective of poverty reduction in the state.

What is actually happening, from a perspective that we might be unaware of, is that this development to a certain extent embodies the aspirations of the government. Looking back to what we discussed earlier in chapter 4, regarding the prime minister's suggestion in the 2006 Malaysia Prospective Plan that the zakat institution should help government in eradication poverty similar to that other agencies like AIM, the findings in the studies discussed here could be viewed as a reflection of that very aspiration.¹⁴⁸

7.5.2 Expansion of the religious organization and its role

Income generation through zakat has directly influenced the shape of the zakat organization, in this case the ZBS. The expanding role of zakat demanded a larger organization to manage it. The role of the zakat institution was no longer solely religious, since it had also become the state agency for poverty eradication. Accordingly, its effectiveness is no longer based merely on the collection and distribution of zakat but also on the degree to which it can help its recipients change their lives permanently. It is all the more essential that the practice adopt the modern way of poverty eradication, which in this case is the income generation program.

In order to meet its expanding role, the ZBS has undergone an organizational enlargement. The number of ZBS officials has increased significantly. In early 2000, the staff consisted of 50 people; at the end of 2010 the body had about 200 staff throughout the state.¹⁴⁹ The expansion has been accompanied by more systematic overall operation and organizational management. In this respect, the ZBS has

¹⁴⁸ Prime Minister Speech at the tabling of the motion on the Ninth Malaysia Plan 2006-2010, Dewan Rakyat, March 31, 2006, 22.

¹⁴⁹ "Sejarah", <http://www.e-zakat.com.my/sejarah-lzs/> (accessed June 3, 2011); Ahmed, *Role of Zakah and Awqaf*, 87.

proven its capability by securing the international certificate of MS ISO9002 for its operational quality and excellence since 2003.¹⁵⁰

Regarding the distribution for income generation, a specific unit entitled the Department of Beneficiaries Development (*Jabatan Pembangunan Asnaf*) was introduced in 2005 to manage income generation programs.¹⁵¹ The initiation of many new programs since then has reflected the establishment of this department. In early 2009, the programs were centralized under a larger, newly created department. The Department of Entrepreneurial Development of Zakat Recipients (*Pembangunan Usahawan Asnaf Selangor*), with approximately 30 staff, was established to accelerate the initiative. Additionally, in 2007 another branch was set up to focus specifically on training, including training for people receiving income generation distribution.

The process of adapting the institution to more comprehensive current needs will definitely not stop at this point. Ibrahim, who is an active researcher and also currently one of the advisers of the ZBS, in her earlier-discussed study suggested not only that the allocation of zakat distribution should be expanded, but also that it is time to seriously consider zakat as an important tool in policy planning, especially as an instrument of the state's fiscal policy. According to her, the time has come for the zakat institution to play an augmented role: if not replacing, at least working hand-in-hand with the conventional taxation system in our economy.¹⁵² Should this ambition be realized, the organization surely will be further expanded over time.

7.5.3 Greater responsiveness and dynamism of *ijtihad*

Inherent in the expanding role of the zakat institution is its direct impact on the development of *shari'a* through the process of new *ijtihad*. In this context, the new resolution concerning income generation through zakat indicates that Islamic law is dynamic and is compatible with economic development.

¹⁵⁰ Ahmed, *Role of Zakah and Awqaf*, 87.

¹⁵¹ Pusat Zakat Selangor, *Laporan Tahunan 2005*, 28; Sahari, "Program Keusahawanan", 6.

¹⁵² Patmawati Ibrahim, "Potential Role of Zakat Distribution in Reducing Income Inequality Among The Muslim Society", in *Teori dan Aplikasi Kontemporari Sistem Ekonomi Islam di Malaysia*, ed. Abdullah Alwi Haji Hassan *et.al* (Kuala Lumpur: Utusan Publication and Distributors, 2005), 234.

On looking back at the discussion on the legal aspect of income generation and the use of zakat for productive purposes, the new *fatwa* seems very flexible in approving income generation programs and indirect disbursement. It appears that the distribution involving non-tangible assets presented no problem but rather was encouraged. There was no issue at all in giving more *manfa'a* (intangible benefit) than *'ayn* (tangible material), since the objective of zakat is not only material enrichment but spiritual development as well.

With reference to decision-making on new issues pertaining to zakat, in 2002 the *Mufti* of Selangor suggested that Islamic scholars should prepare to be reformist in the face of new problems and questions surrounding zakat. According to him, they should be open to any new zakat reform in keeping with the fresh demands posed by current circumstances. He proposed the implementation of *ijtihād Ibdāi Insyāi* (practical reasoning), by which the production of *ijtihād* no longer strictly follows the earlier opinions of scholars. This demonstrates the openness of the *Mufti* himself in his use of *ijtihād* when forming the new zakat ruling.¹⁵³ Clearly in line with his exhortation, as we have seen, certain opinions are no longer derived from Shāfi'ī, the dominant school in the state, and in fact in many situations, *maṣlaḥa* is the main reason given for legitimating a certain initiative.

It is worth noting that, besides the consents that have normally been granted in favour of the ZBS, the *Mufti* has been cautious in approving new programs, granting approval only in cases of pressing need and avoiding any unnecessary expenditure which could put the initiative at risk. Applications which were not in the interests of the recipients have been rejected. For example, the application to use *'āmil* funds for investment was rejected at the end of 1999. In this case, the ZBS asked for permission to invest the unused *'āmil* funds in a financial institution for use in managing the body.¹⁵⁴ In the ruling, the disbursement of any excessive amount to *'āmil* was rejected, on grounds that the distribution must just be enough for zakat

¹⁵³ Mohd Tamyas Abdul Wahid, "Matlamat Seminar Fiqh Zakat Kontemporari", Paper Presented in Seminar Fiqh zakat 2002, Shah Alam, Oktober 22, 2002, 3-11.

¹⁵⁴ Pusat Zakat Selangor, "Kertas Cadangan Pelaburan Harta Asnaf Amil", Paper presented in Fatwa Meeting, Mesyuarat J/K Fatwa 2/99.

administration, not for profit-making by the zakat body from zakat funds.¹⁵⁵ In 2003, the ZBS asked whether or not zakat officials could receive zakat disbursement from the portion of *fī sabīl li al-lāh* should they perform any extra tasks beyond their normal obligations.¹⁵⁶ Again, the *Mufti* rejected the application, saying that they should not receive provision from another portion, but preferably should transfer undistributed funds towards poverty eradication.¹⁵⁷ This decision showed that the *Mufti*, while conferring substantial power to manage the fund, at the same time wanted to keep administration costs to a minimum and to avoid any leakage of funds through unnecessary expenditure.

The application of *ijtihād*, based on the current needs of Muslims, enables zakat not only to be more reactive in solving modern economic problems, but also to be shaped in conformity with local features. Arskal Salim, in delivering his discussion of zakat in Indonesia, has briefly touched on this process, which he called Indonesianizing Islam.¹⁵⁸ In his account, the practice of zakat collection has changed from total voluntary personal disbursement to a more institutionalized approach. Consequently, zakat law No.38/1999 has been introduced.¹⁵⁹ The formation of the law, according to him, suggested the possibility of obligatory payment that could be implemented in the future. Referring to the shift as an Islamization through law, he took the view that it did not necessarily represent the genuine application of Islamic law. Zakat in that case could lose its authenticity in order to meet worldly objectives.¹⁶⁰

A similar process, with the same consequences, could potentially take place in Selangor. For example, the *fatwa* which has given considerable power to the ZBS could transform it into something different from what it was before its active involvement in the development initiative. The influence of the ZBS on zakat expenditure has resulted in a stricter use of zakat, which could previously be used by the poor in more flexible ways. Zakat will no longer be seen as a religious

¹⁵⁵ “Keputusan Fatwa Negeri Selangor Darul Ehsan”, http://www.e-fatwa.gov.my/mufti/fatwa_warta_view.asp?keyID=1106; “Keterangan”, http://www.e-fatwa.gov.my/mufti/fatwa_warta_hujah_view.asp?keyIDv (accessed March 28, 2010).

¹⁵⁶ Pusat Zakat Selangor, “Hak Amil Terhadap Peruntukan Agihan *Fi Sabil li Allah*”, Paper Presented in Fatwa Meeting, August 8, 2003.

¹⁵⁷ Jabatan Mufti Selangor, Meeting Minute of Fatwa Committee, File no. Mesyuarat J/Fatwa 4/2003.

¹⁵⁸ Salim, *The Shift in Zakat Practice*, 63.

¹⁵⁹ For further discussion about the change in law refer: Salim, *The Shift in Zakat Practice*, 56-59.

¹⁶⁰ Salim, *The Shift in Zakat Practice*, 63.

endowment, but as more or less similar to a financial institution's lending fund for its own benefit. Being less tangible, the assets distributed for income generation purposes could lead to terrible consequences should the programs end in failure.

Apart from that, the ZBS is a body accountable to state government, and it is of the nature of such organizations to feel pressured to accommodate governmental aspirations. As earlier mentioned, affirmative policies in favour of Malay Muslims having been a feature of the Malaysian economy, it is possible that the fund will be further used to achieve this target. For zakat to be made additional use of for development, many other changes to aspects of law will be needed to help the institution adapt to the new objectives.

7.6 *Fatwa* on income generation through zakat – development beyond Selangor

Selangor's practice is not confined to that state. As discussed in the previous chapter, it can be clearly observed that other states have adopted similar measures, many of them offering financial and other services for income generation through the zakat fund. Such steps may have been partly influenced, directly or indirectly, by Selangor's initiatives. Almost all states implementing income generation have made official visits to ZBS, which has received working visits not only from other states' zakat bodies, but also from the *Yang Dipertuan Agong* (Supreme Ruler). Over time, the ZBS has proudly shown visitors the zakat programs for income generation across the state. In addition, ZBS staff and its CEO have frequently spoken about its income generation programs at seminars and zakat meetings, to introduce other states to the ZBS approach.¹⁶¹ That is why some writers have identified Selangor as the leader and model for other states as regards income generation.¹⁶²

The implementation of zakat disbursement for income generation by these states signifies that the *Muftis* have given them a green light. As far as Islamic law is concerned, the process of *ijtihad* has evidently been taking place, in a similar manner to developments in Selangor.

¹⁶¹ "Delegasi Keda Kagum Pengurusan Zakat PZS", *Asnaf*, 3/2004, 14; "Permaisuri Agong Lawat Desa Ehsan PZS", *Asnaf*, 3/2004, 14.

¹⁶² Hussin, "LZS dalam Membangun dan Mengembangkan Usahawan" 1.

Terengganu, for example, in the mid 2000s, gave implicit approval by decreeing that any zakat left over after the annual disbursement could be utilized by any means, including investment for development. Although the brief *fatwa* does not elaborate, it could be understood that the initiative of providing business finance to the poor obviously forms part of the concept of investment for development.¹⁶³

Melaka made it clear in 2011 that using the disbursement to help the poor become entrepreneurs is a positive measure. According to the *fatwa*, it should be noted, the zakat distribution to the poor for business purposes should be given outright with no need for repayment. The *fatwa* argued, in support of that policy, that it was the recipients' right, as poor people, to get at least a portion (one-eighth) of the fund. Should the zakat body still want to lend the fund, which could be understood as something extra on top of what was given, the *fatwa* suggested that the loan should be given from the debtor's (*al-Ghārimīn*) portion. The ruling also stated that other support, such as training and necessary courses, should be provided for the poor.¹⁶⁴

Looking at the Melaka *fatwa* carefully, it appears that the *Mufti* has given permission for the use of loans, provided they are not taken from the poor people's portion. This means that Melaka *Mufti* still hold somewhat firmly to the Shafi'i's opinion that *al-tamlīk* must be confined to distribution from the poor portion, while at the same time trying to compromise on the basis of current need. This is a rather different position from that of Selangor, as Melaka in this case is a bit careful about giving unqualified permission for the loan to come from the poor portion.

Such a cautious approach does not, however, indicate that reasoning based on *maṣṣlaha* is totally rejected. The use of *maṣṣlaha* has also been observed in the two above states. The *fatwa* mentions that, in completing its task, the zakat body can use its discretion on the basis of recipients' interests, concomitantly affirming that "the

¹⁶³ Jawatankuasa Fatwa Terengganu, "Penggunaan Wang Terkumpul", www.e-fatwa.gov.my/fatwa-negeri/penggunaan-wang-zakat-terkumpul, (accessed 31 July 2013).

¹⁶⁴ Jawatankuasa Fatwa Negeri Melaka, "Fatwa Berkaitan Agihan Zakat MAIM: Isu Skim Bantuan Perkahwinan dan Pinjaman Perniagaan", www.e-fatwa.gov.my/fatwa-negeri/fatwa-berkaitan-agihan-zakat-maim-isu-skim-bantuan-perkahwinan-dan-pinjaman-perniagaan, (accessed 31 July 2013).

affairs of the imam concerning his people are judged by reference to *maṣlaha*”, the legal maxim also quoted in the Selangor *fatwa*. The Terengganu *fatwa*, for its part, says that “any investment could be run by the religious council so long as it could benefit (*faedahnya*) the eligible recipient”.¹⁶⁵ “Benefit” here could also be considered an element of *maṣlaha*, which is concerned with the interest of recipients.

Although not every state has come up with a similar *fatwa*, the existence of such initiative, as mentioned in the previous chapter, suggests that the program has been readily accepted with no objection from anyone. In Kelantan, Kedah and Johor, for example, distribution for income generation exists without any specific *fatwa* having been issued and openly published.

In this case, the zakat bodies have used their discretion to do their best to relieve poverty. Indeed it is obvious that, by definition, the poor and needy in these states include those who have no adequate vocation, and are thus entitled to receive zakat money.¹⁶⁶ Nevertheless, the distribution could only be carried out provided there was no objection from the state religious council or the *Mufti*. In fact, permission from the religious council and *Mufti* could be based on their confidential periodic meetings, without necessarily taking the form of an official published *fatwa*. As the zakat bodies are still under the respective states’ religious councils, any program run by the former will affect the latter should society perceive any infringement of laws.

In Malaysia, the aspect of the income generation program on which it seems zakat bodies have still not reached consensus is the use of zakat in the form of loans. So far only a few states, notably Selangor and Melaka, have clearly demonstrated a positive view. Other states have not yet taken a clear stand on this particular matter.

Indeed such an issue needs to be dealt with carefully, as the majority of Muslims in Malaysia still hold to the Shafi’i’s opinion, so that giving zakat as a loan is something new for them. Society in this case could feel that the practice conflicts

¹⁶⁵ Jawatankuasa Fatwa Terengganu, “Penggunaan Wang Terkumpul”, www.c-fatwa.gov.my/fatwa-negeri/penggunaan-wang-zakat-terkumpul, (accessed 31 July 2013).

¹⁶⁶ Majlis Agama Islam Johor, “Tarif Asnaf”, http://www.majj.gov.my/?page_id=401 (accessed 15 June 2013); Jabatan Zakat Negeri Kedah, <http://www.zakatkedah.com/index.php/agihan-zakat> (accessed 15 June 2013).

with some basic rule of zakat such as the need to confer ownership, a conflict which could create public confusion. Thus, it is not surprising if the *Muftis* do not hastily display their support for implementation of the initiative –although their silence does not necessarily signify opposition to it.

It is also worth mentioning that in Malaysia there is a mechanism whereby all *Muftis* in the country can meet together from time to time and discuss any issues that need to be resolved collectively. This procedure is handled by the *Jawatankuasa Fatwa Majlis Kebangsaan Bagi Hal Ehwal Ugama Islam Malaysia* (National Fatwa Committee for Malaysian Islamic Affairs) which is comprised of all state *Muftis*. It is common for *Muftis* to discuss any issues related to the national interest about which they are at variance. In view of the current situation, with the implementation of income generation through zakat and related questions being increasingly discussed by the public, perhaps in the near future the *Muftis* will sit together to reach a collective conclusion.

Indeed, the phenomenon in Malaysia, as illustrated by the practice of the zakat bodies and also by the *fatwa*, indicates that the process of *ijtihad* has been clearly in operation not merely in Selangor but also in other states. The reasoning based on *maṣlaha* is also being given greater attention as time passes. The question which may arise here is whether the pattern of decision making could possibly be extended to adopt the *neo-mu'tazilite's* style based on pure logic, as has been shown in the Indonesian case.

Based on observations from the present study, the Malaysian situation as regards this particular issue is still far from that of Indonesia, with the probability of imitating it very slim, if existent. There are a few reasons why the *neo-mu'tazilite's* style will not easily get a grip on Malaysia. The first is that the position of the *Mufti* and religious council is part of the state government's authority. The *Mufti's* decision will definitely affect the government as a whole. As the majority of Muslims still hold strongly to Shafi'i, it would be rather difficult for the government to take the risk of introducing a totally new way of thinking. Indeed, it would be a big risk to expose the community to different ideas, perhaps sparking a religious clash within Muslim society which in turn could lead to political instability. In this case, there is

obviously no *Mufti* who wants to be accused of sponsoring heretical innovation (*bid'a*).

Apart from that danger, state laws (enactments) clearly state that to reach a legal conclusion the *Mufti* must take into consideration not only al-Quran and Sunna but also classical opinions, especially Shāfi'is. Such provisions definitely limit the freedom of *Muftis* to advance their personal opinions haphazardly. Based on the discussion in this chapter, it is obvious that *Muftis* in many cases have never totally sidelined classical opinions, but rather have carefully employed *maṣlaha* as a justifying element.

7.7 Conclusion

From the discussion, we can see how income generation in Selangor is being implemented. The process is a manifestation of continuous improvement in overall zakat management, enabling the role of the institution to broaden while incorporating basic systems of zakat collection and distribution.

Religious scholars and academicians have been among those actively urging that such a mechanism be implemented. Responding positively, the state government and higher authority have given the ZBS a green light for offering the programs. This process can be regarded as a feature of the Islamization of society and the state which gradually enhanced the role of zakat.

Methods of implementation have been discussed in the second part of the chapter. The gradual amendment and more creative operation of income generation programs offered by the ZBS signified a steady increase in the role played by the body. Indeed, it did not merely distribute zakat, but also played a considerable part in ensuring that the distribution could generate better incomes for the recipients. To this end, the ZBS, besides providing training and supervision for every recipient, designed income generation programs so as to require the recipients to act purposefully and to accomplish what had been agreed upon by both parties, with any breach of the agreement likely to lead to withdrawal of the aid. What was actually accomplished by the ZBS, apart from establishing that the fund could be effective in poverty eradication, was to complement the state's accommodative policy towards

zakat. In this context, the ZBS has sought to demonstrate its competence in the effort to eradicate poverty.

As the implementation of a new way of zakat distribution falls within the realm of religious affairs, any change must be approved by the *Mufti*, the highest authority in expounding Islamic questions. In this case, the *Mufti* has given his full support to income generation with distribution in the form of both tangible and intangible assets. He has also shown his open-mindedness by formulating the ruling without strict adherence to traditional rulings or to a specific school of law and the *fatwa* is currently based to a great extent on the needs of Muslim communities. Such a style of issuing *fatwa* is not merely confined in Selangor but could also be observed in other states which similarly offering income generation through zakat.

In sum, the implementation of the income generation program is evidence of the zakat institution's wider role in economic development. It also shows the effort made by the religious institution to complement policies recommended by the state, which is willing to accommodate religious elements within its originally secular character. The achievements of the programs, as shown in the final part of the chapter, indicate that income generation through zakat has met with some success. This outcome is living evidence of the process of Islamization in the country, whereby religion shares in the wider reality of the state's economic, social and political progress. Along the way, the *sharī'a* also, to a degree, affects changes in the law according to local need. What can be observed here is that not only has *sharī'a* impacted on local economic development, but also the other way round.

CHAPTER 8: CONCLUSION AND RECOMMENDATION

8.1 Conclusion

The thesis is about the impact of Islamization upon the zakat institution. Throughout the thesis four objectives are pursued: namely, to survey the meaning of the Islamization phenomenon, particularly in relation to the zakat institution; to explore the theoretical meaning of income generation through zakat as manifested by the Islamization process, while briefly surveying its practical implementation in a few Muslim countries; to understand the Islamization phenomenon in Malaysia and how such a phenomenon could affect zakat; and finally, to study the implementation of the income generation program through zakat in Malaysia generally and in Selangor specifically.

Islamization is a phenomenon whereby Islam plays an enhanced role in the state and in civil society, with both of which it is interrelated in many areas including politics, economics and social policy. The Islamization process can be initiated and inspired from above (the state) or below (society). In the case of Islamization by the state, as indicated in Chapter 2, the process consists of giving the religion a more significant role in government, ultimately leading to the formation of an Islamic state. Islamization by society is associated with the increase in awareness among members of the community of the need to practise Islam in every aspect of their lives. In this type of Islamization, the groups or movements aim to instil Islamic values in every individual, in the hope that a true Islamic society can eventually be established.

Zakat is a religious obligation which simultaneously has economic functions. It is a dynamic institution, which through time has adapted to its surroundings and tried in many ways to accommodate constant change. In accommodating the Islamization phenomenon, zakat has been projected as not merely a religious institution but one playing a significant role in economic development including for the income generation programs.

Apart from expanding the role of zakat, Islamization entailed legal reinterpretation in issuing zakat rulings. In this context, *ijtihad* or legal expediency

has to be employed to justify the new role of zakat in accordance with current needs and demands. The new ways of using the zakat fund must be clarified by modern jurists before implementing the programs, since classical rulings do not necessarily provide satisfactory answers to the many questions surrounding zakat. Throughout Chapter 2, Islamization has been thoroughly discussed and defined; accordingly, the first objective is fulfilled.

From a theoretical standpoint, Chapter 3 has discussed the concept of income generation through zakat. Income generation is a mechanism of modern development and poverty eradication in which NGOs or governments normally target poor households to help them to become productive. In this approach, poor people with the potential to sustain themselves by their own efforts will be helped through various initiatives such as financial aid, training and advice. Income generation is an initiative has been gradually emerging as a popular development strategy in many developing countries since approximately the 1970s. The strategy was popularly adopted to complement the then main development policies namely industrialization and green revolution as the latter policies unable to effectively eradicate poverty in the nations.

Discussions of zakat in connection with distribution for income generation programs have proliferated alongside general modern writings on zakat. The theoretical pattern indicates that Muslim scholars since the mid-twentieth century have been referring to distribution of the zakat fund for income generation as a mechanism of poverty eradication which produces better results for eligible recipients. The proposers, in this case, could be understood, to an extent has based their view on the existing modern income generation programs. Such an initiative is not unrealistic, given that zakat is an adaptable institution, besides which, this type of distribution appears to be in line with zakat's objective of helping the poor and needy.

In considering income generation through zakat, Muslim scholars have suggested that the fund should not be distributed merely in the form of money or daily needs for consumption by the eligible recipients. Instead, they should be given capital, training or related skills to enhance their ability to produce a sustainable income hence, ensuring that they will not be dependent on the fund for their entire

lives. Indeed the new way of distribution is an initiative that presents zakat as a modern tool for economic development. By the end of Chapter 3, it is clear that the theoretical aspect of income generation through zakat has been comprehensively examined, enabling the second objective to be partly fulfilled.

The dispersal of zakat fund for income generation programs has been carried out in a number of Muslim countries. The implementation of such programs appears to have been influenced by the Islamization phenomenon in each country. As discussed in Chapter 4, Pakistan and Indonesia in this respect have been chosen as models of implementation. The chapter is basically designed to partly fulfil the second objective, namely, to survey the practical implementation of income generation through zakat in Muslim countries.

Pakistan has been implementing income generation through zakat as part of its Islamization of the economy, during which process, in the 1980s, the government tried to include zakat in its national taxation system and poverty eradication mechanisms. Islamization in that country was begun by President Zia ul Haq after he came to power in 1979, subsequently running the country by martial law. The government established a centralized zakat administration with zakat collected through mandatory deduction from bank accounts. Collection of the fund by the government, as clearly shown in the chapter, was totally at the discretion of top government officials, without proper public consultation. As a result, the collection diminished through time, as people gave only half-hearted support to the project.

To improve the distribution system, the government introduced income generation programs in 1980s, accompanied by enactment of the laws needed to enforce implementation. Apart from that, the government established the National Zakat Foundation, a special body to help the zakat institution carry out the programs. In this case, the government went to great lengths to ensure that the zakat body could function effectively.

As for legal considerations, although for the most part classical jurists have had no objection to distribution of zakat for income generation, some aspects are still problematic. Classical jurists, especially from the Hanafi sect, argued that the fund must always be disbursed tangibly, and that the distributed fund must be fully owned

by the recipients. Looking at modern income generation programs, it seems that the practice of giving non-monetary aid, such as training and advice, is in conflict with classical rulings. In this respect, the National Zakat Foundation has supported the programs by using government money instead of zakat to provide training. Hence, Pakistani scholars in this case are more inclined towards upholding classical opinions.

Overall, the implementation of income generation in Pakistan could be perceived as part of the effort to build an Islamic state, an agenda visualized by the government, especially its president. The realization of the program was strongly backed by the government and controlled through regulations and laws expressing its commitment to Islam. As the government struggled to attract popular support, it chose the safe path of avoiding any problems in implementation of the policy. Thus, it eventually decided to supplement zakat with state money, rather than persuading scholars to employ new rulings justifying the use of zakat for development purposes.

Indonesia is another country which has implemented income generation programs since the 1980s. By contrast with the zakat institution in Pakistan, that in Indonesia has been largely under popular control, with income generation programs introduced by local people and Non Governmental Organizations.

Islamization in Indonesia has never received strong official support. Since the country became independent in the late 1940s, the Indonesian government has maintained the policy of keeping the state free from religious influence. The first two presidents came from a military background and had no interest in facilitating government promotion of any religion. The government also tried to constrain Muslim scholars and Islamists from active involvement in politics. Facing restrictions on political action, Muslim scholars turned to social activities through which to propagate Islam, including the effort to revive the zakat institution.

In 1968, there was an attempt by a few religious individuals to produce a ministerial decree establishing a zakat collection system in every district in Indonesia. The then president, however, introduced his version of a national collection, which resulted in the earlier-circulated decree being annulled. When, after a few years, he discontinued the initiative, it appeared that the president's motive had

been merely to keep the government at a distance from religion, in the area of zakat administration as well as generally.

Realizing that the government was not keen to improve the zakat institution, civil society, mainly led by scholars and the middle class, established individual collection and distribution centres. From the 1970s on there were also seminars and surveys calling for more creative methods of collection and disbursement. The established collection bodies have to compete to attract potential payers and to disburse creatively. In this effort, income generation has been one of the methods given attention as a program for social development.

In regard to legal rulings, Indonesian scholars generally do not tend to hold strongly to classical decrees. Although the Shāfi'ī school – the dominant sect in the country – is rather lenient in the matter of disbursement for income generation, it also imposes some limitations related to ownership. The classical Shāfi'īs, for example, still reject the use of zakat for loans. In this case, local scholars ruled that ownership need not be observed in all cases. They also permitted loans from zakat as a disbursement consistent with local needs. Such local rulings are unsurprising as Muslims in Indonesia are free to hold plural opinions to the extent that some of their scholars fully embrace the spirit of rationalism in determining religious rulings. The positive attitude without any question towards income generation initiative from zakat fund is indeed expected.

What we can see from the pattern in Indonesia is that society to a certain extent has challenged the secular government to prove that it can do without the help of the former. After the demise of the second president and the rise of more democratic government at the end of the twentieth century, civil society, through forums and collaboration with zakat agencies, has continuously urged the government to be more actively involved in the zakat institution. The government has partly met the demand by introducing a zakat law in 1999, although so far the law acts primarily as a guideline, without obliging people to observe their duty.

Looking at the models illustrated by the two states discussed above, we can suggest that both sources of Islamization, the state and society, must act simultaneously. Besides the state's commitment to assume greater power over the

fund, there must be support for it from society. This is because the fund comes from the people and must be returned to them. Government in this case should accelerate the development and facilitate the management of zakat through encouragement and persuasion. Coercion or rejection from any party can only have negative implications for the overall management of zakat and lead to the complete failure of the system.

The subsequent Chapter 5 has dealt with the Malaysian case, thus achieving the third aim of the thesis by the end of the chapter. As in other Muslim countries, the development of zakat in Malaysia has been closely associated with the Islamization phenomenon. From the time of its independence in 1957, Malaysia has politically adopted a secular democratic state. As a majority religion within the country's multiracial composition, Islam was designated an official religion, although this status was maintained merely for purposes of solemnization.

After approximately a decade of independence, interracial misunderstanding led to racial tension. Consequently, the Malaysian government introduced an affirmative economic policy, giving an advantage to the Malay Muslims who also constitute the majority of Muslims in the country.

The Islamization phenomenon in Malaysia began to be noticed in the early 1970s. It was sparked by several religious groups, mainly organized by young people, who thought that the government was only focusing on material development in dealing with Muslims' problems. The groups, on the other hand, wanted the government to be more concerned with Islam, to the extent of turning Malaysia into an Islamic state. The religious movements also gained support from civil society, support which eventually developed into greater awareness among Muslims of their religious obligations. Apart from that, the groups became actively involved in politics, opposing the government in national elections.

As a reactive measure, the government took bold action in the 1980s by introducing its version of Islamization. The state's Islamization agenda included, among other features, the co-option of religious individuals and the establishment of Islamic banking and the Islamic University. In this case, however, the Islamization was not directed towards creating an Islamic state but rather towards strengthening

Muslims socially and economically. By adopting such an agenda, Malaysia, while remaining a secular state, became more accommodating towards Islam.

As far as zakat is concerned, the institution had been administered by state religious councils since the early twentieth century. Administration by the councils was the result of the shrinking power of state rulers under colonial government, leading them to focus on religion as their principal surviving power. Since then zakat has been a key resource of religious councils in running their activities.

Prior to the Islamization phenomenon, the zakat institution could be regarded as merely an effort by the ruler to encourage people to fulfil their obligation. The religious councils collected and disbursed the zakat fund without considering the economic condition of society. Ultimately, the collection was small and disbursement did not benefit Muslims economically.

The Islamization of society since the 1970s has changed the practice of zakat in the country. The religious movements, besides calling for members of society to observe their personal obligations, also called for the inclusion of zakat in economic development plans. In the 1980s the Malaysian federal government started to react positively to the call, through seminars and surveys aimed at improving the zakat administration system.

In the 1990s, the federal government (through IRCFT) introduced corporatization, a new type of zakat administration in which the fund was managed as though the administrative body were a corporate business entity. The model introduced is to an extent influenced by the then current practice of the Malaysian government where the government has transferred many services to the private companies that the latter could perform the duty hitherto carried out by the former believing that the private sector could deliver the better services.

The new model has successfully attracted a larger collection of funds and since then has been replicated by a number of states. Apart from that, the government has gradually endorsed zakat as an integral part of its economic strategy, recognizing the fund as an important resource for poverty eradication. Since the federal government's role in this case was primarily advisory in nature, it depended on states to implement the proposals.

The increase in collection has led a number of states, such as Federal Territory, Selangor and Kedah, to introduce income generation programs since the end of the 1990s. This step was emulated by other states including Johor, Kelantan and Negeri Sembilan in the 2000s. To compare briefly, Selangor appeared to be the leading and most innovative state in its income generation program, both in the amounts disbursed and in the program offered.

As we can see from the pattern of Islamization in Malaysia, the phenomenon seemed to be dominated neither by government nor by society. We can safely say that Islamization in society pushed the government towards embracing Islam, leading officials to be more accommodating towards the religion notwithstanding the state's secular nature. In regard to zakat, the government appeared to encourage the use of the fund for development.

In Chapter 6 the case of Selangor was discussed. Malaysia, as a federated country, gives powers pertaining to development and poverty eradication to the federal government, with states playing the secondary role of implementation and monitoring. For these purposes, the state, in this case Selangor, is financially limited and mainly depends on federal aid. This limitation, however, does not prevent the state from helping its people to improve their living conditions, since it has a clearer picture of conditions within its own territory. In these circumstances, the state must look for any additional resources that might be available, including help from the religious fund.

The collection of zakat in Selangor has been managed by the IRCS since the 1950s. Initially, the administration of the fund merely made it easier for Muslims to observe their obligation, without using the collected fund effectively for development. This situation changed after Islamization.

Islamization in Selangor to a degree resembled the process in Malaysia as a whole. The Islamization of society through the proliferation of religious movements in the 1970s and 1980s encouraged Muslims to fulfil their zakat duty. This phenomenon in turn induced the IRCS to explore the related possibilities, at first through seminars and discussions. Finally, in the mid-1990s, the IRCS adopted the

corporatization model, an Islamization measure earlier introduced by the zakat body in Federal Territory.

The new model of management proved to be an effective mechanism for appealing to payers to pay their zakat. The constant increase in collection can be understood as reflecting both growing awareness among Muslims and their confidence that the IRCS had gradually improved its practices. At the end of the 1990s Selangor took the further step of corporatizing its disbursement function.

Having more resources to disburse, the new management body (the ZBS) faced the challenge of sustaining the fund's increment. The ZBS believed that Muslims would contribute more once they saw the benefits accruing from payment. Accordingly, the distribution system now placed more emphasis on poverty eradication and income generation programs. With better administration, the government realized the potential of the fund for development and, over time, showed its interest by incorporating the institution as part of the official mechanism for eradicating poverty.

Discussion of the implementation of income generation projects in Selangor, and their impact, has been offered in chapter 7. Indeed, the project is a manifestation of continuous improvement in overall zakat management due to Islamization in the state. As shown in the chapter, income generation through the zakat fund has been strongly advocated by local religious scholars and academicians to ensure that the zakat endowment improves the recipients' condition. The state government and higher authority later responded positively to such exhortation by giving the ZBS a green light for introduction of the programs.

The ZBS started offering the scheme at the end of the 1990s, and in the 2000s the programs were gradually strengthened with greater financial allocation and more creative mechanisms. The ZBS, besides providing training and supervision for every recipient, designed income generation programs in such a way as to require the recipients to act purposefully and to accomplish what had been agreed upon by both parties, with any breach of the agreement likely to lead to withdrawal of the aid. What was actually accomplished by the ZBS, apart from establishing that the fund could be effective in poverty eradication, was to complement the state's

accommodative policy towards zakat. Thus, the ZBS has sought to demonstrate its competence in the effort to eradicate poverty.

As far as the legal aspect is concerned, the *Mufti* gave his full support to the project. He also showed his open-mindedness by formulating the ruling without strict adherence to traditional rulings or to a specific school of law. The legal issues in income generation, such as those surrounding ownership and intangible disbursement, did not appear to pose a problem and the *fatwa* is currently based to a great extent on the needs of Muslim communities. In addition, the pattern of *fatwa* is not merely confined in Selangor but also could be observed in other states.

Hence, implementation of the income generation program is evidence of the zakat institution's wider role in economic development. The achievements of the programs, as shown in the final part of the chapter, indicate that income generation through zakat has met with some success. Currently, zakat has been evaluated alongside other, secular, development mechanisms. Although a few weaknesses can still be observed, it appears that the zakat management has shown its commitment to continuous effort and improvement of existing methods. Altogether, the implementation of the program shows, especially in the Malaysian context in general and Selangor in particular, the effort made by the religious institution to complement policies recommended by the state, which, for its part, is willing to accommodate religious elements within its originally secular character. In brief, Chapters 7 and 8 have together achieved the final objective

On the whole, the thesis has shown how the Islamization phenomenon in the Muslim world has transformed zakat into a development institution whereby religion shares in the wider reality of the state's economic, social and political progress. Islamization is a dynamic phenomenon which not only revives religious duty but also induces changes in the interpretation of law. It appears from the study that adaptable Islamic institutions, in this case zakat, can face the challenges of the modern era, in which the institution has been re-shaped as a modern development tool for poverty eradication.

8.2 Recommendations and further exploration

Throughout the study, possible recommendations emerge. The first is that, as suggested by the findings, the Islamization agenda must be supported by both sides (society and government) to ensure that plans can become fully functional and be carried out effectively. It seems that a strong commitment from one party alone cannot promise a desirable outcome. The case of Islamization in Pakistan, for example, revealed that, although zakat was made mandatory through enforcement and legal requirements, society was still not persuaded to give its support. In addition, it is recommended that, in appealing to the masses to support the Islamization project, the soft approach of propagation and education must be adopted.

It is also clearly found that, through better management, religious duty, in this case zakat, can help society to improve its living conditions. On the basis of the findings we believe that a similar approach could be taken towards other religious obligations such as *waqf* (inalienable endowment), the pilgrimage fund, or any other *sadaqa* (voluntary contribution). The creative and effective use of the fund through modern management techniques could help Muslims with economic development. In this context, the practice of development organizations should be studied and consequently emulated.

Apart from that, to ensure that the religious institution can be functional in the modern era, the religious authority must uphold the principle of *ijtihad*, without which the institution will be perceived as merely an expression of personal piety. In this respect, while the classical rulings should not be neglected, scholars must take a broader view in the light of society's current needs.

As this research is confined to the zakat institution, some suggestions for future research may be offered. In further exploration of the Islamization phenomenon, perhaps other aspects of Islamization could be illustrated. As a dynamic phenomenon, Islamization could be defined so as to comprise many other elements beyond those indicated in this study.

As far as the institutions to be focused on are concerned, we believe that, apart from zakat, additional Islamic observances could be studied. Other financially

related religious institutions such as *waqf* and charity, or non-financial institutions such as prayer, *hajj* (pilgrimage) and *sawm* (fasting), could be examined within the purview of the Islamization phenomenon. We believe that, should there be any further studies of such religious practices, there will appear a new pattern in the way Muslims observe their duties. Such a discovery could reflect interesting changes in the modern environment.

Within the context of zakat, apart from income generation, there might be other new programs on which the fund could focus. In this respect any new initiative could be the sign of a bigger process behind it. As zakat is an adaptable institution, we believe that it will evolve through time and that, accordingly, many related issues could be studied.

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Interview with Abdul Samad Ibrahim, Head of Asnaf Development Department, ZBS, Klang, May 14, 2010.

Interview with Fauzi Masdan, Head of Department, Entrepreneurial Development Unit, ZBS, Shah Alam, May 20, 2010.

Interview with Hairudin Ahmad, ZBS sewing workshop supervisor, Tanjong Karang, May 5, 2010.

APPENDIX 1

Zakat Collection Based on Type of Wealth (2000 – 2008)

Type of Wealth	2000 (RM)	%	2001 (RM)	%	2002 (RM)	%	2003 (RM)	%	2004 (RM)	%
Earnings/salary	11 117 854	27.81	19 732 575	35.77	29 716 583	41.89	39 586 512	50.7	52 051 302	52.7
Business	7 220 560	18.1	12 124 977	21.98	12 866 010	18.13	10 346 386	13.26	13 961 682	14.1
Gold and Silver	253 187	0.63	253 924	0.46	298 992	0.42	416 270	0.53	593 940	0.6
Agriculture	693 283	1.7	757 787	1.37	1 009 171	1.42	1 125 673	1.44	1 219 233	1.23
Livestock	9 600	0.02	600	0.001	4 100	0.006	1 022	0.001	3 745	0.003
Savings, Shares and Employees Provident Fund	7 640 038	19.1	9 816 740	17.8	10 750 348	15.15	12 666 716	16.23	15 283 064	15.5
<i>Qaḍā'</i> (late payment)	175 956	0.44	207 107	0.38	330 351	0.47	326 292	0.42	590 637	0.6
Other Wealth (a)	12 856 395	32.2	12 267 098	22.24	15 961 746	22.5	13 547 996	17.4	15 031 071	15.22
Total	39 966 873	100	55 160 808	100	70 937 301	100	78 016 867	100	98 734 674	100

Sources: Lembaga Zakat Selangor, *Laporan Pengurusan Zakat Selangor*, various issues.

(a) Refers to zakat in which its sources cannot be specifically determined and normally derived from manifold type of wealth. This is because the payers are not mandatorily required to declare the type of wealth during their payment submission.

Zakat Collection Based on Type of Wealth (2000 – 2008)

Type of Wealth	2005 (RM)	%	2006 (RM)	%	2007 (RM)	%	2008 (RM)	%
Earnings/ salary	66 464 345	53.68	81 183 195	54.1	100 223 178	52.6	130 759 372	56.3
Business	20 288 650	16.39	27 549 214	18.36	43 774 868	22.97	46 142 219	19.87
Gold and Silver	718 747	0.58	509 964	0.34	454 137	0.24	503 416	0.22
Agriculture	1 217 066	0.98	1 288 102	0.86	1 254 040	0.66	1 698 834	0.73
Livestock	3 624	0.002	5 739	0.004	28 210	0.014	15 957	0.007
Savings, Shares and Employees Provident Fund	17 455 200	14.1	20 133 115	13.42	23 793 061	12.49	27 982 102	12.05
<i>Qaḍā'</i> (late payment)	455 002	0.36	565 068	0.38	431 194	0.23	772 997	0.33
Other Wealth (a)	17 215 497	13.9	18 803 301	12.53	20 576 280	10.8	24 330 024	10.48
Total	123 818 131	100	150 037 698	100	19 0534 968	100	232 204 921	100

Sources: Lembaga Zakat Selangor, *Laporan Pengurusan Zakat Selangor*, various issues.

APPENDIX 2

Ḥad al-Kifāya (Sufficiency Limit) Evaluation

No	Category	<i>Ḥad Kifāya</i> Limit	
		Urban (RM)	Rural (RM)
a.	Head of Family	390	235
	1. Rented house		
	2. Owned house	190	135
b.	Adult/ spouse	100	70
	1. Non-working spouse		
	2. working spouse	150	70
c.	Adult Dependent (above 18)	170	110
d.	School-aged Dependent (13-17)	125	85
e.	Child Dependent (5-12)	105	65
f.	Infant	60	30
	Additional (if applicable)		
g.	Disabled dependent	200	150
h.	Nursery cost	150	100
i.	Chronicle illness	200	200

Example:

Mr A and his family reside in urban area living in a rented house. He is working as a security officer earning RM 800 a month. Apart from his wife, he has five other dependents comprising:

1. Two children in secondary school
2. Two children in primary school
3. One disabled child

No	Category	<i>Ḥad Kifāya</i> Limit		No of People	Amount (RM)
		Urban	Rural		
a.	Head of Family	390	235	1	390
	3. Rented house				
	4. Owned house	190	135		
b.	Adult/ spouse	100	70	1	100
	3. Non-working spouse				
	4. working spouse	150	70		
c.	Adult Dependent (above 18)	170	110		

d.	School- aged Dependent (13-17)	125	85	2	250
e.	Child Dependent (5-12)	105	65		210
f.	Infant	60	30		
	Additional				
g.	Disabled dependent	200	150		200
h.	Nursery cost	150	100		
i.	Chronicle illness	200	200		
	<i>Had Kifaya</i>				1150

Category: Poor (income is less than his minimum sufficient income).

APPENDIX 3

Disbursement of Zakat Based on Group of Recipients (2000- 2008)

Group of Recipients	2000 (RM mil)	%	2001 (RM mil)	%	2002 (RM mil)	%	2003 (RM mil)	%	2004 (RM mil)	%
<i>Faqir</i> (Destitute)	1.535	4.67	0.523	1.0	1.184	1.78	2.687	3.15	2.175	2.15
<i>Miskin</i> (Poor)	4.820	14.66	12.963	24.68	17.335	25.93	26.574	31.17	30.996	30.7
<i>Amil</i> (Collector)	4.854	14.76	5.469	10.41	9.006	13.47	11.893	13.95	12.043	11.93
<i>Muallaf</i> (Converts)	2.440	7.41	3.319	6.32	3.808	5.7	4.953	5.81	5.544	5.49
<i>Fi sabil allah</i> (In the way of God)	8.419	25.6	13.341	25.4	32.984	49.34	35.779	41.97	45.348	44.92
<i>Gharim</i> (Debtor)	1.513	4.6	3.046	5.8	1.699	2.54	2.751	3.23	4.095	4.06
<i>Ibn Sabil</i> (Travellers)	0.159	0.48	0.566	1.1	0.395	0.6	0.304	0.35	0.379	0.38
<i>Riqab</i> (Those in bonded)	9.149	27.81	13.302	25.32	0.430	0.64	0.299	0.35	0.356	0.35
Total	32.890	100	52.53	100	66.843	100	85.241	100	100.937	100

Sources: Lembaga Zakat Selangor, *Laporan Pengurusan Zakat Selangor*, various issues.

Disbursement of Zakat Based on Group of Recipients (2000- 2008) (continued)

Group of Recipient	2005 (RM mil)	%	2006 (RM mil)	%	2007 (RM mil)	%	2008 (RM mil)	%	2009 (RM mil)	%	2010 (RM mil)	%
<i>Faqir</i> (Destitute)	2.175	2.15	2.589	1.76	2.092	1.18	11.394	6.02	34.946	12.51	50.340	15.23
<i>Miskin</i> (Poor)	30.966	30.68	38.525	26.22	54.036	30.53	51.174	27.08	70.706	25.32	76.862	23.26
<i>Amil</i> (Collector)	12.043	11.93	19.739	13.44	27.397	15.48	30.397	16.08	35.473	12.71	42.116	12.74
<i>Muallaf</i> (Converts)	5.543	5.49	7.651	5.21	8.729	4.93	11.672	6.18	15.975	5.72	19.956	6.04
<i>Fi sabil allah</i> (In the way of God)	45.348	44.92	66.915	45.55	66.202	37.41	63.595	33.65	89.252	31.96	108.303	32.78
<i>Gharim</i> (Debtor)	4.095	4.1	9.999	6.81	17.130	9.68	18.977	10.04	30.144	10.79	29.105	8.81
<i>Ibn Sabil</i> (Travellers)	0.379	0.37	0.446	0.3	0.429	0.24	0.699	0.37	1.081	0.38	1.223	0.37
<i>Riqab</i> (Those in bonded)	0.355	0.35	1.041	0.71	0.965	0.55	1.089	0.58	1.61	0.57	2.454	0.74
Total	100.937	100	146.906	100	176.979	100	188.999	100	279.191	100	330.364	100

Sources: Lembaga Zakat Selangor, *Laporan Pengurusan Zakat Selangor*, various issues.